

# *D. Parrish* Nation's Business

The Business Advocate Magazine

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How Much Now  
And Next Year**

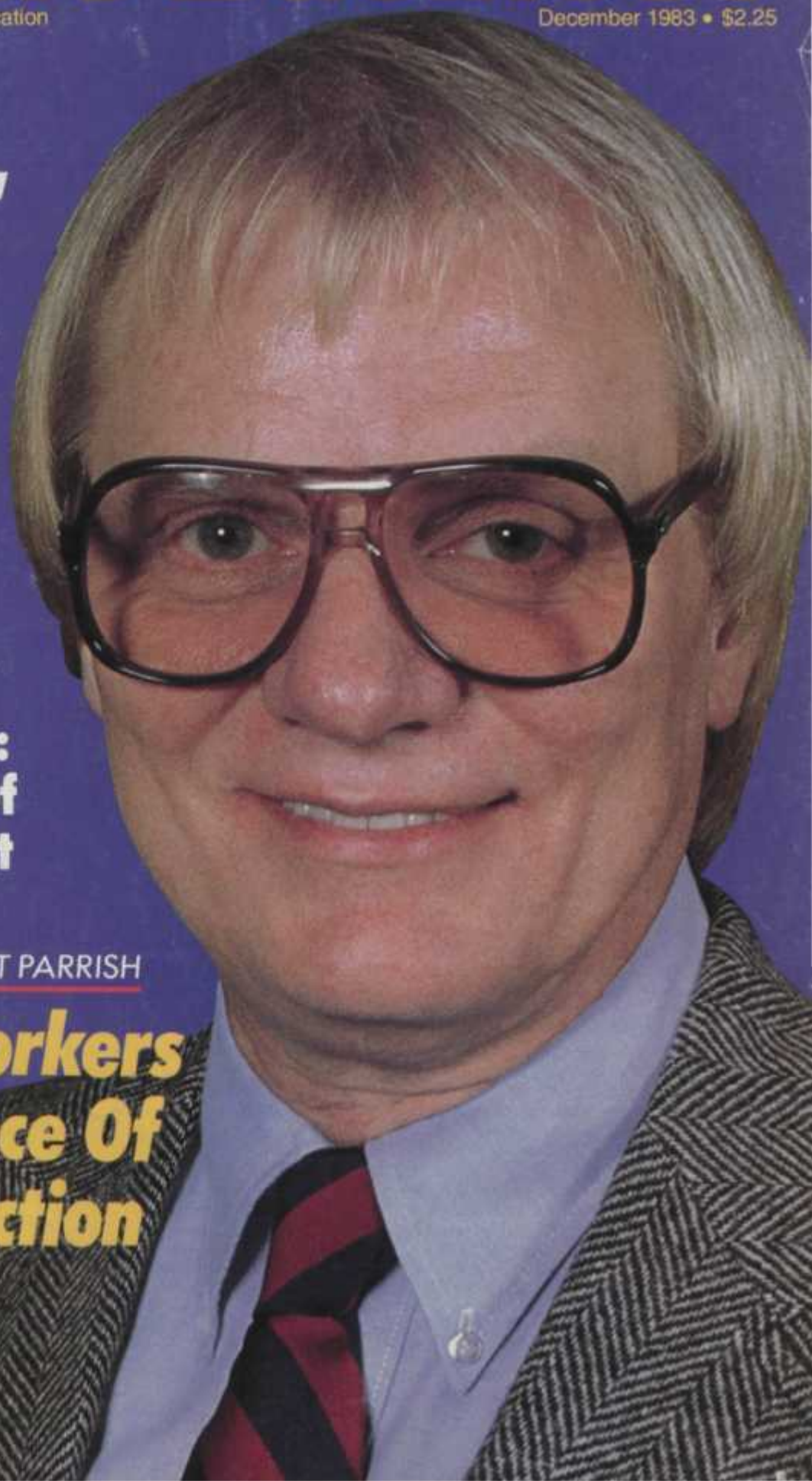
**What Makes  
For Success  
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**Business  
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# Nation's Business®

December 1983  
Vol. 71, No. 12

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Thousands of companies of all sizes have given their employees a piece of the action in recent years by setting up stock ownership plans. Case histories show some of the results.

PHOTO: DIANA WALKER-LIASON



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One in four executives was not registered to vote in the '82 elections. An attempt to remedy that is part of the business strategy for '84.

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PHOTO: GARY KIEFER



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The problems of running an electric power system today are tough ones, but they call for utilitarian abilities common to good managers. Ask Floyd Lewis of Middle South Utilities.

PHOTO: GARY KIEFER



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Why is a Small Business Administration computer contract that is supposed to go to a small private firm now in the hands of a small public agency?

PHOTO: DAVID VALDEZ



## Computers That Talk

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These machines can awaken you or keep you awake, read your mail to you and warn you when something is amiss.

PHOTO: TOM CAMPBELL—BEST LIGHT



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Midwinter vacations can be good for your mind and your body. Here are options for the business executive.

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Poor 1982 performance shrank most bonuses this year. But prospects are brightening as the economy improves.

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## A Time for Statesmanship

**A**PPEALS TO STATESMANSHIP rarely amount to much in Washington, or for that matter in any capital where laws are made. Appeals to sheer self-interest ordinarily are more successful. But now and then members of Congress surprise us (and surprise themselves as well) by rising above everyday politics in order to put the national interest first.

Such a rising to the occasion is needed now in the matter of a bill to reform our immigration policies. Only a sense of statesmanship will move a bill to enactment.

The vehicle for reform is known as the Simpson-Mazzoli bill, after its principal sponsors, Alan K. Simpson (R-Wyo.) in the Senate and Romano L. Mazzoli (D-N.Y.) in the House. The Senate passed its version of the bill on May 18 by a vote of 76 to 18. The measure then went to the House.

Over the next several months it was badly banged around by the committees on Agriculture, Education and Labor, and Energy and Commerce. On October 4, Speaker Thomas P. O'Neill announced bluntly that he would not permit the bill to reach the floor of the House this year. He could see "no constituency for it," and he feared a political ambush in the form of a presidential veto that would curry favor with Hispanics who oppose the bill.

The assault in the House comes as a keen disappointment to many persons in both parties and to many liberals and conservatives alike. If politics-as-usual prevails, we could wait indefinitely while half-hearted efforts are made to satisfy first one group and then another group. Reasons will always be found to sidetrack an immigration bill, but the longer Congress stalls, the worse the situation will be.

By "the situation" I mean the continuing problem of illegal immigration, chiefly from Mexico and the rest of Latin America. It is a human problem, an economic problem, a social and philosophical and demographic problem. It defies answers that are simple, easy or cheap. The bill that passed the Senate in May is not a perfect bill; the several versions that were kicked around in the House in September were better in some ways, but still fell short of attracting universal applause. Yet the basic idea of the Simpson-Mazzoli bill is the best approach devised so far.

This basic idea takes two forms. The first is to deal in some fashion with the millions of illegal immigrants who already are here. The second is to prevent new millions from flooding in.

On the matter of aliens already within the country, the bill would grant a kind of amnesty: All those who could prove they had entered the United States before such-and-such a date would be granted permanent resident status or, under the Senate bill, a form of privileged temporary status that could become permanent after three years. The policy is humane; it would remove a cloud that hangs over an estimated 3 million human beings who now are technically outside the law. The policy also would cost the taxpayers a large sum—perhaps as much as \$11 billion over a five-year period—in the form of social services.

On the more difficult question of deterring illegal immigration in the future, Simpson-Mazzoli would go straight to the heart of the matter. The illegals come to the United States in search of work. The bill would make it unlawful for an employer knowingly to hire them. The theory is that if jobs dry up, the reason for illegal immigration also will dry up. The theory strikes me as sound.

Employers object that the proposed sanctions would put them unwillingly in the role of law enforcement officers; they also object to the added burden of paper work. Civil libertarians object that everyone would have to carry an official identity card in order to obtain work.

Hispanics object that rather than run the risk of being hassled by the government, employers would refuse to hire anyone who even looked Hispanic. Blacks object that the amnesty provisions would make life even tougher for their teenagers by introducing the competition of suddenly legalized aliens.

**T**HE OBJECTIONS RAISED to a national ID card strike me as both silly and paranoid, but it is possible to sympathize with some of the other points. Inevitably the Simpson-Mazzoli approach would benefit some elements of society and would disadvantage others. As Speaker O'Neill cynically but correctly observed, there is no constituency to be wooed by supporting the bill; there are votes to be won by opposing it.

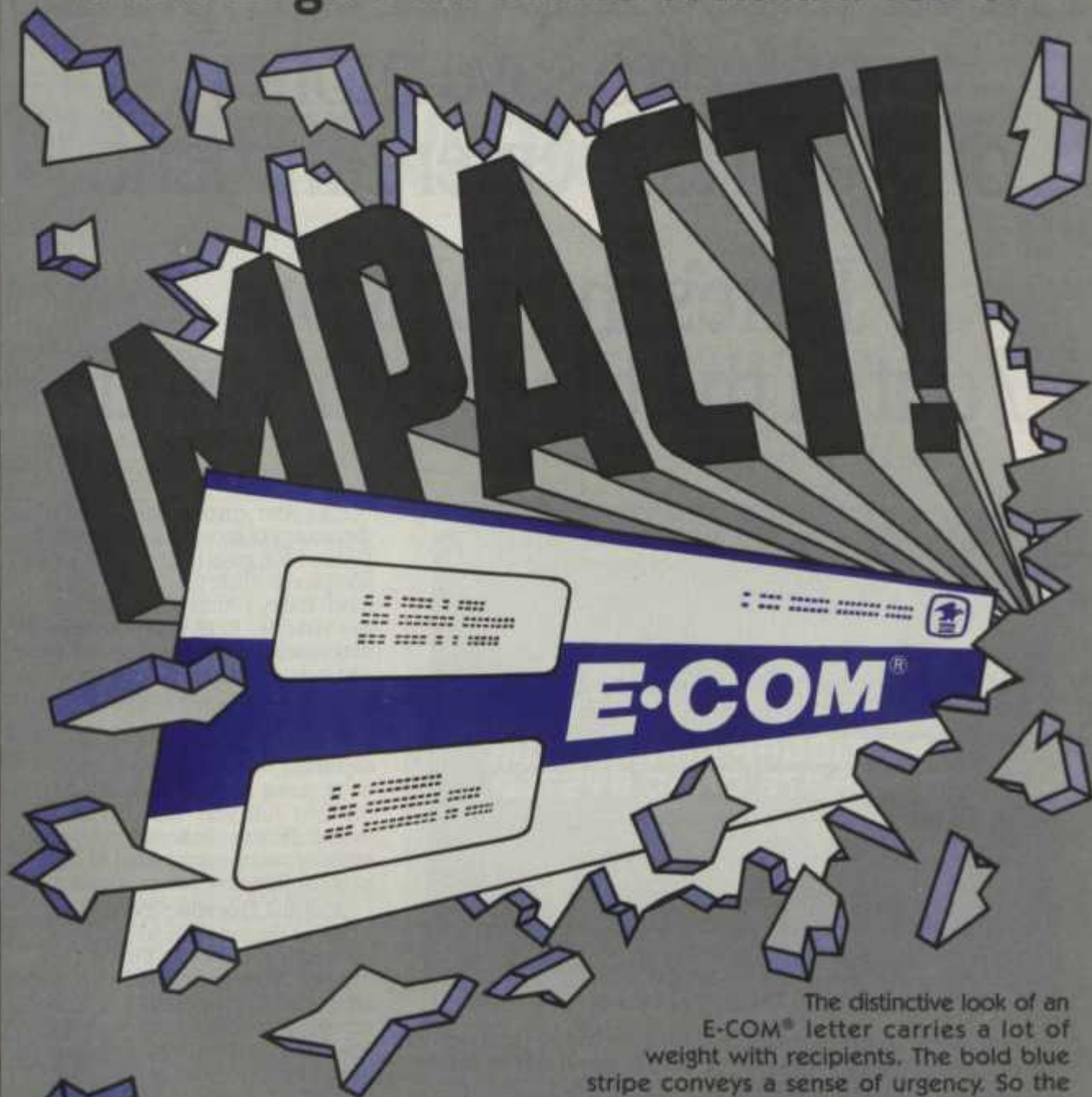
This is why a measure of statesmanship is required. To do nothing is to leave the floodgates open and to ignore a problem that won't go away. This is the kind of irresponsibility we have come to expect from politicians. From statesmen we expect something more. □



The immigration problem defies answers that are simple, easy or cheap.



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# WASHINGTON LETTER

► **INTEREST RATE OUTLOOK** is cloudy due to recent unexplained slowdown in money supply growth, prime indicator of changing short-term rates. Interest rates may drop early next year if Federal Reserve decides late this month to inject new reserves into banking system (see article on page 33). Fed may also ease interest rate it charges banks for money loaned overnight. These two factors mean economy could register stronger than expected performance over next six months. If money supply starts to grow without new injection of reserves, interest rates may stay at current levels longer. Result would be slower economic growth in first half of next year.

► **ECONOMIC GROWTH MAY REGISTER** surprising 6.5 percent rise in current quarter on annual basis, resulting in like amount of growth over same period last year. This is about twice as much growth as most economists predicted year ago. Pickup in capital spending by business means economy could grow 5 to 6 percent over next four quarters. Faster growth reduces budget deficits, brings unemployment down—but at risk of heating up inflationary expectations.

► **EMPLOYMENT GAINS** over past 12 months have meant 3 million workers have gone back to work since bottom of recession. More workers than ever before—about 101 million—are on the job. Also, near-record proportion of working age population is employed, about 64 percent. With unemployment below 9 percent, forecasters say jobless rate could hit 7.5 percent by this time next year. Labor experts now say that when economy is growing at full capacity, about 6 percent unemployment will remain. In past years, 4 percent un-

employment was considered full employment. Difference is that today's economy requires work force with higher skill level.

► **CONGRESS ADJOURNED** without taking action to curb runaway federal spending that threatens longevity of economic recovery. Forecasts of \$100 billion deficits years into future give boost to legislation granting line-item budget veto power to President. Already, governors in 43 states have such authority. In Senate, 21 cosponsors are lined up almost overnight by Sen. Mack Mattingly (R-Ga.). Committee hearings are scheduled for next year. Rep. Jack Kemp (R-N.Y.) has lined up 37 House cosponsors, but Democrats' opposition means hearings may never be held unless Republicans take control of House. Constitutional scholars are divided over whether change requires amending Constitution or can be done with legislation.

► **MASSIVE EFFORT** to get Congress to bring federal spending under control will be spearheaded by U.S. Chamber of Commerce. Seven-point plan approved by business federation's board would delay higher spending on entitlements one year, then cap annual cost-of-living increases at 60 percent of inflation; freeze federal pay hikes one year, limit future payroll hikes to 3 percent; extend Social Security payroll taxes coverage to all government, nonprofit workers in 1985; slap new limits on other programs along lines recommended by General Accounting Office, Grace commission.

► **GRACE COMMISSION** final report due in late December. Commission's 2,500 recommendations to save more than \$300 billion in three years may get especially close



scrutiny in view of massive deficits expected over rest of decade. Federal budget experts caution that biggest savings will come from actions requiring approval of Congress. Some commission proposals could result in loss of congressional prerogatives to earmark spending for special interests' benefit. Reagan administration may make report's ideas centerpiece of plan to narrow budget deficits without raising taxes.

► CALIFORNIA, VERMONT are target of taxpayer group trying to require convening of constitutional convention to write balanced budget/tax limitation amendment to Constitution. Plan would mean three-fifths rather than simple majority would be needed for red ink spending to pass. So far, 32 of 34 states required have approved measure. Proponents say it is feasible to get last two states before next November's election, thus putting pressure on candidates to take stand on issue. Vermont town meetings will be asked to back plan this winter; that may prod legislators to act. Signatures are being collected in California to get plan on spring election ballot.

► DESPITE HOUSE APPROVAL, domestic content bill designed to cut auto imports is not expected to clear Senate next year. Plan would require that percentage of parts of imported autos be made in United States. It could hike auto prices by as much as \$2,000; result in net loss of jobs; invite foreign retaliation; damage relations with Canada. House approval is seen as evidence of organized labor's growing clout in that body as new election year approaches.

► REAGAN POLITICAL ADVISERS reportedly have succeeded in convincing him to announce this month intentions on running for second term. President had pretty well decided to wait until new year before making announcement. But Republican insiders report campaign planners worried that January was too late, particularly because campaign organization already set up, funds pouring in. Political advisers feared continuing absence of

candidate could dampen campaign workers' enthusiasm, give rise to speculation Reagan is not eager to re-enter political wars.

► JESSE JACKSON'S ENTRY into race for Democratic presidential nomination may mean higher than normal turnout in next November's election. Jackson is not expected to gain nomination, but his presence may mean front-runner Walter Mondale will be forced further left. Jackson can be expected to campaign for Mondale if Mondale is nominated, giving boost to Democrats' efforts to increase turnout of blacks' votes. Republicans may target voter registration efforts at social conservatives among Hispanics and other minority groups.

► TAX RELIEF FOR ESTATES of soldiers, sailors killed in Lebanon, Grenada is provided for in bill introduced in Congress by Rep. Bill Archer (R-Tex.). Current law grants income tax relief only to families of servicemen killed in official "combat zones," but no such declaration covers military action like the actions in those two places. Measure would be retroactive to 1980, allowing estates of soldiers killed in Iranian hostage rescue mission to qualify for federal income tax relief.

► APPOINTMENT OF DONALD RUMSFELD as Middle East troubleshooter means United States forces probably will withdraw from ground positions in Lebanon well before 1984 presidential elections. This will protect against possible political setback or repeat of Iran hostage debacle. Former Defense Secretary, Rumsfeld will take leave of absence as chairman of G.D. Searle Company. He has reputation as politically astute activist who gets things done.

► MISERY INDEX, an informal measure of workers' well-being--total of unemployment rate, annual rate of increase in consumer prices--was 13.6 in November. This is 20 percent improvement over comparable figure three years ago, just before Reagan was inaugurated President.



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## LETTERS

# The Price of Health

In "The High Cost of Health" [October], James J. Kilpatrick suggests that the government's new prospective payment system for Medicare patients may help curb the soaring costs of hospital care. I don't share that optimism. Rather, I believe a Medicare-only prospective payment system will escalate the current \$6 billion annual cost and shift it from the public to the private sector.

What is needed is a prospective payment system that applies to all payers. Properly designed and implemented, a prospective payment program can slow the rate of increase in hospital costs, help inform the public about hospital costs and stimulate competition.

G. ROBERT O'BRIEN

President

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"The High Cost of Health" erroneously blames physicians for uncontrolled health care costs, but the blame really belongs to the hospitals.

Let's look at physical therapy, a service provided by most hospitals. Though the chief physical therapist may submit an annual budget including an expensive new piece of equipment, he or she may not have any say about charges for physical therapy services. Charges for similar services in private outpatient clinics generally run more than 60 percent less than the cost of the same care provided by hospitals.

The government has finally recognized this and is attempting to regulate administrators and accountants by the new reimbursement plan for Medicare patients.

I am not applauding these new regulations, for I feel they will prove a failure in the long run, but I am glad to see the government recognize the real culprits in cost controls.

RAYMOND H. CRALLE

Cralle Physical Therapy

Services

Delray Beach, Fla.

Concerning "The High Cost of Health," why would James J. Kilpatrick expect otherwise? It didn't take a genius to predict that health care costs would skyrocket under open-ended programs with broad eligibility and little to discourage unnecessary use.

In the years before Medicare and Medicaid, doctors' fees increased less

than 3 percent a year and hospital charges 6 percent. In the five years after, both rates more than doubled. The reason: government-enacted cost-plus reimbursements that told the hospitals and doctors, "To get more, spend more."

We should reduce government involvement and return to a two-party contractual agreement between doctor and patient. Only when treatment is agreeable to each party and value is received in exchange for value is it likely that treatment will be justified, be cost accountable and reflect the marketplace.

ROBERT D. HELMHOLDT, D.D.S.

Fort Lauderdale, Fla.

## No love lost on truckers

Bob Gatty's description of a truck lumbering along at 55 miles per hour while cars zip past is more romantic than true ["Turmoil in Trucking," October]. Recently, I was forced down the Pennsylvania mountains by a group of trucks—one close in front, one close in back and two at my side, all trying to outdistance one another at speeds of 65 to 70 mph.

I doubt that one in 10 truckers drives much below 60 mph. I appreciate the services that trucks offer, but, as one who tries to drive the speed limit, I wish I didn't have to share the highways with them.

DAVID E. PHILLIPS  
Bloomington, Ill.

## Block that fraud

Re: "Swindles That Come in the Mail" [September].

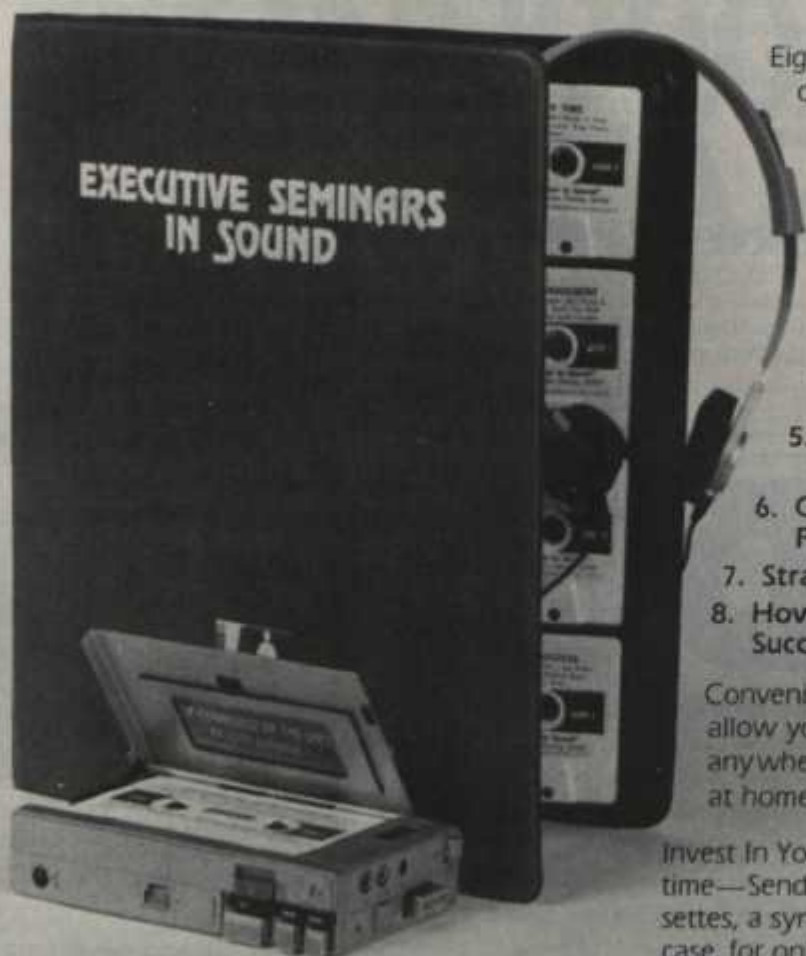
In October we received a very official looking invoice from a company in California. The invoice was for a directory listing for our Telex. The invoice was a second request. The first request had been sent in early September.

At that time, we checked with our representative at ITT World Communications, since we know that part of our service contract with ITT is a free direc-

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tory listing. Our representative told us the invoice should not be paid and that the company that sent the invoice had absolutely nothing to do with ITT. We just discarded the bill.

Receiving the second invoice and reading your article prompted us to take some action. We have written to the Postal Service, and we are writing both the New York state attorney general and the California state attorney general.

We are always very careful to make sure we are not paying for services or materials we have not requested. We thoroughly check every invoice that comes into our office, but we thank you for the article, which has further enlightened us.

LUCIE S. GANCI  
Mimeo, Inc.  
Great Neck, N.Y.

### Spend less, save more

"The Rising Threat of Tax Raises" [October] overlooks an important point: Politicians are still trying to increase taxes rather than reduce spending.

The White House is currently reviewing results of studies on government waste compiled by a private sector volunteer commission led by industrialist Peter Grace. The potential savings fore-

seen by the commission are amazing.

If Sen. Robert Dole (R-Kans.) and his colleagues will work to implement only half of the improvements suggested, there will be a bright light at the end of the tunnel.

The Grace recommendations are a bird in the hand. Why Congress insists on chasing after birds in the bush is difficult to understand.

EWALD A. STEIN  
Wickenburg, Ariz.

### Not so slim a victory

I have the honor of representing Arizona's fifth congressional district, and so I read with keen interest the article "Choosing Up Sides Early" [October].

Allow me to correct a minor error. I defeated my opponent in the 1982 general election by 2,407 votes, not "by barely 1,000 votes" as reported in the article.

JAMES F. McNULTY, JR.  
Member of Congress  
Washington

### Shippers like Staggers Act

"Will Rail Rates Hurt Coal Exports?" [Outlook, October] quoted the Department of Energy as predicting that rail rates might rise 29 percent by

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1985, 71 percent by 1990 and 90 percent by 1995.

In contrast, a recent study by the General Accounting Office indicates that the provisions of the Staggers Rail Act of 1980 received unqualified endorsement by shippers. One shipper reported contracting to move 98 percent of his firm's coal at rates under 20 percent of those published by the railroad.

G.L. CONSTANTINE  
Silver Spring, Md.

### Defense's true share

Though it is true that defense spending was 49 percent of the federal budget in 1960 and will account for only 31 percent of the 1985 budget ["The Key To Living Within Our Means," October], the facts are misleading.

They imply that defense spending is at a lower level now than it was in 1960, which it is not. It is at a much higher level.

Since 1960, there has been enormous growth in several budget components—interest on the national debt, grants-in-aid to state and local governments, and Social Security. Medicare, a major 1985 budget area, did not exist in 1960. Comparing budgets composed only of the same expenditures would give an en-

tirely different picture of defense spending.

The proper way to measure the growth in defense spending is to compare it with the rise in the consumer price index. In 1960, the CPI was 88.7; in 1985, it will be approximately 340. In 1960, defense spending was \$45.2 billion; in 1985, it will be about \$260 billion.

If defense spending had merely kept pace with the CPI, in 1985 it could be held to about \$173 billion, a savings of \$87 billion. CHARLES F. McLAUGHLIN  
Philadelphia

### "Society's" responsibility

I read with interest Chief Justice Warren E. Burger's plea for prisoner rehabilitation ["Ex-Prisoners Can Become Producers, Not Predators," October].

But I find myself at real odds with his statement that "when society places someone behind walls and bars, it has a moral obligation to do whatever can reasonably be done to change that person for the better." I heartily disagree. Chief Justice Burger's article reflects an alarming attitude that shifts the focus of attention from the victim to the criminal.

Society is composed of people who

want to be able to walk the streets of their communities without the fear of being mugged, raped, robbed or murdered. Chief Justice Burger would have those people feel a "moral obligation" to reform the persons who just robbed or raped them.

Having recently sat on a jury that sentenced a 21-year-old man to life imprisonment and a \$25,000 fine for aggravated rape, I can assure the Chief Justice that I do not feel any kind of an obligation to reform this criminal. My only obligation was to determine whether this man was guilty and, if so, to determine an appropriate sentence. That may not be a very "moral" attitude in the eyes of Chief Justice Burger, but aggravated rape isn't very moral either.

GARY N. ORADAT  
Houston

Only dangerous offenders should be imprisoned. Offenders who are not dangerous to the public should be required to do community service and provide restitution to their victims. This would be more productive and less expensive than warehousing them in prisons.

STEVEN A. MACDOUGALL  
Fort Wayne Community Volunteer  
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## Still Top Concern: The Burden of Taxes



The U.S. Chamber of Commerce's Small Business Council listens to Sen. Lowell Weicker (R-Conn.). The council wants Congress to provide additional tax relief.

Tax relief still ranks as the greatest concern for small businesses.

The U.S. Chamber of Commerce recently polled its Small Business Council to determine the leading issues and found that small firms are still worried about those factors that have direct impact on the cost of their operations.

Two thirds of those polled rate tax relief a major issue. They suggest relief can be had by reducing corporate and capital gains tax rates and increasing investment tax and job tax credits.

Not far behind in the list of concerns are paper work reduction, product liability and bankruptcy reforms, amendments to air and water pollution laws, hazardous waste legislation and natural gas deregulation.

As expected, those polled put Social Security financing high on the concern list, followed closely by health care cost-containment measures and reform of Medicare and Medicaid. Also of continuing concern are revamping the Davis-Bacon Act, reform of the controversial Occupational Safety and Health Administration and various minimum wage proposals, specifically the youth differential.

## A Helping Hand For High Tech Firms

The Small Business Administration, the state of Pennsylvania and private supporters have put together a pilot program that is designed to be especially beneficial to firms involved in high technology. The program site is Lehigh

University in Bethlehem, Pa., which houses one of Pennsylvania's small business development centers.

In its first phase, the program will receive \$260,000 from the SBA—money that must be matched with private funds. In this phase the 13 development centers will identify the high tech firms in the state, catalog their needs and make an inventory of the resources—like educational institutions and research centers—that are already available to meet those needs. A computer model for this information will be created.

Starting early next year, small businesses will be able to go to one of four advanced technology centers in the state for computerized assistance like information on plant site location and sources of venture capital.

William A. Scharf, director of SBA's office of private sector initiatives, hopes that similar programs will be created nationwide. Programs could be developed, he says, by states and cities or even by individual investors.

## Interagency Conferences On Contracting

During fiscal 1984 more than \$1 billion of federal research and development funds and hundreds of millions of additional dollars in subcontracting will be available for small businesses.

The National Science Foundation and the Small Business Administration have teamed up again to get the message out via interagency conferences for small firms. In 1982 representatives

of more than 1,200 firms attended similar conferences.

Technical representatives from the 14 major federal agencies and departments that award 99 percent of federal R&D contracts are attending the new sessions, known as Federal High Tech '84. Representatives from large federal contractors like IBM, ITT, Hughes Aircraft, GTE, Raytheon, GE, Aerojet General, Tracor, TRW, Boeing, Martin Marietta, General Dynamics, United Technologies, LTV/Vought and McDonnell-Douglas are also attending.

The next session will be held at the Hyatt Regency O'Hare, in Chicago, December 6-7. It will be followed by one January 25-26 at the Sheraton Twin Towers in Orlando, Fla.

Registration fee is \$45. Contact: Foresight Science and Technology, Inc., 2000 P Street, N.W., Washington, D.C. 20036 or call the Federal High Tech '84 hotline: (202) 833-8844.

## Small Firms' Owners Would Do It Again

Ninety-one percent of small business owners say that if they had it to do over, they would choose to operate a business. But less than one fifth would recommend that their children go into the business, according to a new study by Chemical Bank of New York City.

In a survey conducted for the bank in July and August, Research & Forecasts, Inc., interviewed 1,047 owners of New York City area businesses with annual sales between \$500,000 and \$5 million.

The freedom of being one's own boss was the most compelling reason to start a business for 38 percent of the respondents. Next in importance were financial benefits (25 percent) and personal fulfillment (24 percent).

Despite satisfaction with their own life choices, three in 10 entrepreneurs recommended that their children enter a profession; 16 percent of respondents wanted their offspring to start their own businesses.

"Small business owners see themselves and their companies as offering a transitional step toward a better life," explains William H. Wulffing, vice president and head of the small business unit at Chemical Bank.

The report notes that "business owners display the traditional desire to maintain increased aspirations for one's offspring: What's good enough for them may not be good enough for their children."



## Saying Less, Telling More About Funds

Most potential investors in mutual funds wince at the thought of having to plow through disclosure documents that are verbose and legalistic and tell more than you would ever want to know about a mutual fund. The documents often go unread.

Now they are likely to have more readers. The Securities and Exchange Commission has approved use of shortened—not to exceed 12 pages—and readable prospectuses by new mutual funds. Existing funds will have to gradually phase in the shortened prospectuses over the next several months.

The new prospectuses still must include data a prospective purchaser needs to make an informed decision.

David Silver, president of the Investment Company Institute, trade association for mutual funds, says the new prospectuses will make "ordinary investors more aware of the services and rates of return achieved by mutual funds over the years as well as the variety of investment choices open to them."

Silver concludes that "everyone is a

winner": The mutual fund industry will save money in printing and delivery costs; investors will be better informed, and the SEC will save time in reviewing the documents.

## Replacing MRBs: The Hunt Goes On

Seeking an alternative to mortgage revenue bonds, Sen. Robert Dole (R-Kans.) has introduced a bill that would create mortgage credit certificates.

State and local housing agencies would be authorized to give up all or part of their authority to issue revenue bonds in exchange for authority to issue the credit certificates to first-time home buyers. The home buyers would be entitled to tax credits of between 10 and 50 percent of the annual mortgage interest on private loans for purchase of a principal residence.

Dole claims the credit certificates would be more efficient than revenue bonds, saving the federal government an estimated \$500 million in revenue



Would-be home buyers in New York lined up all night for low-interest loans.

over five years. Mortgage revenue bonds' interest is exempt from federal taxation, which enables private institutions that buy them to lend at low rates to qualified home buyers.

## TRANSPORTATION

## The Slurry Pipeline Goes Down the Tube

Stunned by a House vote that buried interstate coal slurry pipelines for the foreseeable future, the coal and electric power industries are regrouping behind another effort to reduce what they say are excessive railroad coal-hauling rates.

For more than a decade coal shippers have sought an alternative to railroad transportation in some areas, to pressure the railroads into lowering their rates. Interstate pipelines moving crushed coal in water seemed to be the answer.

But the House, by a vote of 182 to 235, rejected a bill allowing pipeline companies to exercise the power of eminent domain, effectively preventing the pipelines from crossing state lines.

Pipeline advocates now intend to redouble efforts to win more favorable treatment under the Staggers Act deregulating railroad rates. They complain that the Interstate Commerce Commission has interpreted the law in ways too beneficial to the railroads.

"We think the slurry issue will probably die out," says Association of American Railroads spokesman Thomas White, since inflationary pressures that pushed rail rates upward are subsiding. The cost savings that some shippers

projected they could obtain through the use of slurry pipelines have disappeared as inflation rates have dropped down from the double-digit range, White says.

## How Amtrak Got Back on the Track

Reports this fall of an Amtrak financial derailment were greatly exaggerated. True, the parent company, National Railroad Passenger Corporation, defaulted on \$1 billion in October. But with a fast shuffle of paper among bureaucrats, Amtrak was suddenly back in the black and its momentarily smudged credit rating made clean.

After the House of Representatives rejected, by a 151-198 vote, a measure discharging \$800 million in principal and \$200 million in interest that Amtrak owed the Department of Transportation, DOT Secretary Elizabeth Dole stepped in and put matters aright.

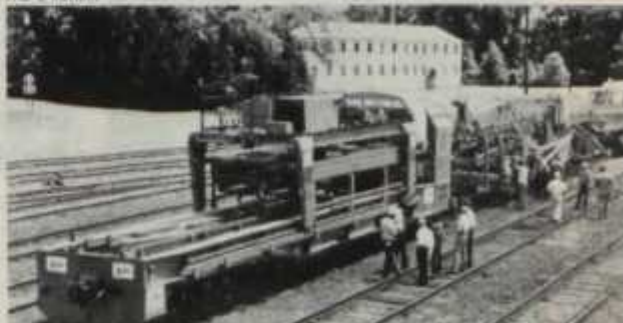
The paper shuffle went like this: The Transportation De-

partment took title to Amtrak assets. With them as collateral, DOT borrowed funds through the Treasury Department to repay Amtrak's debt to the Federal Financing Bank. DOT intends to make up the funds with anticipated congressional appropriations.

Meantime, says Amtrak spokesman John Jacobson, the railroad is stronger than it has been in a decade: "We're getting a handle on costs and we're adding service."

Much of the \$1 billion Amtrak had borrowed was plowed into improving roadbeds and acquiring new rolling stock, an investment that Jacobson says has paid off in greater rider satisfaction and increased business on many lines.

PHOTO: AMTRAK



Amtrak has spent many millions replacing roadbeds; this is a track-laying machine.



## A Legislative Attack on Unitary Taxation

A sizzling controversy is expected to erupt in Congress next year over bills proposed by Rep. Barber Conable (R-N.Y.) and Sen. Charles Mathias (R-Md.) that would prevent individual states from taxing profits earned abroad by multinational corporations that operate in the United States.

Thirteen states currently enforce the so-called worldwide unitary tax plan, which has ruffled foreign feathers and caused at least one foreign government, Great Britain's, to consider retaliatory taxes that would reach into American corporate pockets.

Mathias and Conable are urging a "water's edge" approach, under which states could not use foreign earnings in computing taxes owed them.

President Reagan refused to let the administration intervene in a California case before the Supreme Court that would have tested the constitutionality of states' right to impose a worldwide unitary tax.

Such organizations as the U.S. Chamber of Commerce and National Foreign Trade Council have tried—to no avail—to get Treasury Secretary Donald Regan to seek legislation limiting the states' ability to resort to unitary tax-

ation. The President formed a high-level task force to draw up recommendations for resolving the controversy, but unitary tax foes consider this an inadequate response.

## How Government Lags In Managing Trade

The federal government, says Orville Freeman, should take note of the trend among American corporations to departmentalize their foreign trade activities. As things stand, he says, "our government is not organized realistically in terms of dealing with world trade and economic problems."

Freeman, a Kennedy administration Agriculture Secretary, is now a global traveler as board chairman of Business International Corporation in New York.

Freeman says the Reagan administration's attempt to replace the Commerce Department with a new cabinet-level agency for international trade "is a step forward but only a small slice of the kind of action needed."

He points out that major American corporations "figured out quite a few years ago they should arrange their foreign sales programs by product divi-

PHOTO: GARY KIEFER



Orville Freeman: Government should take a page from industry's achievement.

sions rather than through a central international sales office. Our government should take a page from what industry has achieved by letting the experts in its various departments get the job done right in our global dealings."

As an example, he says the Agriculture Department "is geared to handle foreign agribusiness dealings in depth, but its experts are not consulted by the policymakers of the Agency for International Development."

## DEFENSE

## The Defense Buildup: Boon to Recovery?

The defense buildup during the Reagan administration has been a major force in business recovery—one whose stimulative effect promises to continue, reports Data Resources, Inc., an economic analysis firm.

Allegations that bigger Pentagon budgets have been chiefly responsible for deficits of historic size are not borne out by the numbers, says DRI. Neither, its study indicates, are concerns that orders for more weapons

Accelerated weapons production has not strained the economy, a new study says.



will distort nondefense production.

"There is no evidence yet of any defense-induced strains on America's production capacity as a result of the rising levels of expenditures," says DRI senior economist L. Douglas Lee.

"Total manufacturing capacity utilization in the fourth quarter of 1982 was at its lowest level in many years. A similar conclusion holds true across all three of the defense-related industry sectors—electrical machinery, transportation equipment and aircraft."

Most industries affected by defense expenditures "contain enough slack capacity that bottlenecks and price pressures are unlikely to develop in the near term," Lee says. Swelling deficits "are largely the result of revenue reductions because of tax cuts."

## Giving the Pentagon An Economics Lesson

Socialism at the Pentagon? Two cost-conscious lawmakers charge that Defense Department buying practices resemble those of the Red Army in the Soviet Union.

What American military purchasers need, they say, is a big dose of competi-

tive bidding to bring waste, fraud and abuse under control.

"The most frightening thing is that it seems our procurement practices are becoming more like the Soviets' bureaucratic, centralized system, which we know is a proven failure," says Rep. Jim Courter (R-N.J.), a member of the House Armed Services Committee.

Courter and Sen. Charles Grassley (R-Iowa) are gathering support for their bill requiring increases in competitive bidding of 5 percent more each year in the Pentagon's acquisition of goods and services.

Complaining that a majority of Defense Department contract awards are negotiated with individual companies rather than opened for true competitive bidding, Courter says the taxpayer is getting cheated.

"The result," says Grassley, a member of the Senate Budget Committee, "is a pricing system completely unsubjected to the rigors and discipline of a free market."

Courter and Grassley acknowledge that reforming Pentagon procurements won't be easy. Says Courter: "There is an enormous constituency for the way business is now conducted... The bureaucracy will seek to preserve the status quo."



## Why a PAC Decided To Pack It In

One business political action committee—that of the National Asphalt Pavement Association—has been killed, in a move to counter a trend of steady PAC growth.

"I realize that is like swimming upstream in Washington," says Robert W. Busha, NAPA director of government relations. "But only 3 percent of our national membership has been contributing about 65 percent of our PAC funds."

Busha says his organization is "very much against public financing, but we think we can be successful in urging more of our members to contribute on their own to more candidates of their choice."

Despite organized labor's extensive use of PACs in the 1970s, some critics of PACs now complain that the money-raising groups have become weighted heavily on the side of big business and should be replaced by public financing of election campaigns. But a new report by the Washington-based Institute for Government and Politics shows that contributions from business PACs go to a mixed bag of politicians.

The detailed report shows, for instance, that in the 1982 Senate cam-

paigns major business PACs contributed to liberal candidates like Jerry Brown of California and Toby Moffett of Connecticut and to liberal incumbents Paul Sarbanes (D-Md.), Edward M. Kennedy (D-Mass.) and Howard Metzenbaum (D-Ohio).

## Black Voting: End To Stereotypes

Whom will blacks support in the 1984 presidential derby? A detailed national study shows that 82 percent of those describing themselves as either Democrats or Republicans say they will vote for the candidate with the best platform for blacks, regardless of party affiliation.

The study, conducted by the University of Michigan Institute for Social Research, disputes a widely held belief that Harold Washington's race (he is black) was why he won the support of most blacks in his successful campaign to become mayor of Chicago.

"Our study suggests that blacks are more sophisticated than that," says survey research chief James S. Jackson. "They won't vote for someone just because he is black [but] for candidates

they believe have the interest of blacks at heart." Jackson says 60 percent of those surveyed support that view.

The survey, which reflects responses from 2,107 representative black voters across the nation, shows that the presidential campaign by black leader Jesse Jackson will stimulate voter registration and more political awareness among potential black voters in 1984.

Most of those surveyed say it is essential to become active at the polls, instead of participating in street protests, to achieve improved social and economic conditions.

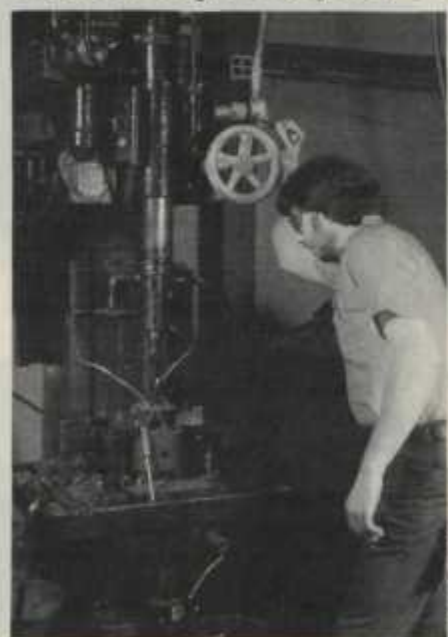
PHOTO: DAVID HALEZ



A survey shows Jesse Jackson will boost blacks' political awareness.

## ECONOMY

## The Sunny Prospect of Cash Surpluses



With cash plentiful and interest rates not rising, machinery orders should go up.

Lower taxes on business will help many companies pile up big cash surpluses next year, predicts Robert Ortner, the Commerce Department's chief economist.

"This almost never happens," he says.

One benefit, adds Ortner, "is that a lot of firms will be able to finance growing inventories and expansion without resorting to external financing."

Ortner projects that cash surpluses—internally generated funds in excess of spending for plant modernization and expansion—will total between \$20 billion and \$25 billion in 1984.

Besides greatly improving company balance sheets and pushing down company costs, a higher level of saving by business would have an important side effect: Interest rates in general would not rise next year, despite government borrowing to finance huge federal deficits.

Since the bottom of the recession 12 months ago, businesses have kept the ratio of inventories to sales at low levels. One result is that private demand for credit has been low relative to economic growth.

As the capital spending phase of the recovery takes hold, possibly in the second quarter of 1984, steady or falling interest rates will encourage business to place orders for machinery that increases capacity.

Rising orders for such things as machine tools should mean that the benefits of recovery will spread to the industrial Midwest, where unemployment is still high.

## Wanted: Money Supply That's Growing Faster

Economists who keep close tabs on the Federal Reserve system are waiting for signals that the money supply is beginning to grow faster.

Since last May, M1, the most closely watched measure of the money supply, has grown at an annual rate of about 5 percent. But many economists, like Robert Genetski, chief economist at Chicago's Harris Bank, hope the rate will hit 7 percent. They say that such growth in the amount of money ready to be spent would keep the economy expanding fast enough to bring down unemployment without triggering substantially higher inflation and raising long-term interest rates.

With the money supply growing at a steady 7 percent, Genetski says, inflation can be kept between 4 and 5 percent—slightly above current levels. Surprises could develop if, because of weak increases in commodity prices, the inflation rate is lower than expected.



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# When Employees Get A Piece Of The Action

Stock ownership is raising productivity and profits.

By Julian Morrison

PHOTO: DAVID WALDEZ



Art Parrish talks about work with a machinist at Parrish Power Products. The company, founded eight years ago, is a pioneer in employee stock ownership plans, which Parrish calls "a way to restore the work ethic."

**W**HEN Art Parrish started a manufacturing company in Toledo eight years ago, he had no idea he was doing something that put him on the cutting edge of a movement that could alter significantly the traditional employer-employee relationship in this country.

Parrish used what was then a new law, the Employee Retirement Income Security Act of 1974, to establish an ESOP—an employee stock ownership plan. As a result his employees became part-owners of Parrish Power Products, which makes industrial drive train equipment.

"Our ESOP has been a phenomenal success," Parrish says. "Everybody here knows what the point is: If we achieve prosperity, we share it. If we don't, there's nothing to share. It's today's way of doing business; as far as I'm concerned. It's a way to restore the work ethic, which is damn near dead in this country."

The firm's 25 workers own approximately one third of its stock. Parrish and three cofounders own another third, and outside investors have the rest.

Parrish says the ESOP unquestionably has increased the company's profits. "There's a positive effect on productivity, which in turn has a positive effect on profitability," he says. He adds that some employees who thought of leaving the company "during downs of the business climate stayed because they valued what they had."

Terry Bishop, the company's general

manager, says, "We don't suffer here from the 'we' and 'they' attitude you find so often between labor and management. If employees notice that one of them is not performing, they'll straighten it out. There's a sense that the guy is fouling things up for everybody."

The ESOP, says Jim Beasley, a machine operator, "seems to pull everybody together." Says Eleanor Balbus, a secretary, "It gives you more to work for. The harder you work, the better off you are. And you don't feel unequal to anyone."

Parrish and the others are far from alone in their praise of ESOPs. Spurred by recession, rising costs, stagnant productivity levels and foreign competition, American business has been turning increasingly to ESOPs as a solution to a variety of corporate problems.

ESOPs have been created to transfer ownership from a retiring company president to his workers, as a vehicle for avoiding an unwanted takeover, to provide employee benefits, as a source of new capital and as a way to save a firm headed for the scrap heap. Companies setting up ESOPs, which give them tax and financial advantages, range in size from small ones to giants and cover a gamut of fields from heavy industry to newspapers, transportation to insurance.

The idea of making owners out of workers has been around a long time, but it got its first boost from Washington in 1974 when Sen. Russell Long (D-La.) persuaded Congress to pass the ESOP law.

Corey M. Rosen, executive director of the National Center for Employee Ownership, a nonprofit research group

based in Arlington, Va., says that over 6,000 U.S. firms have some form of employee ownership plan today, up from a few hundred less than a decade ago. Rosen says studies show companies with ESOPs are 1½ times as profitable as comparable non-ESOP firms and have twice the annual productivity growth. The employees' stake can range from a small percentage of the company's stock to full ownership.

**G**IANT Pan American World Airways offers a graphic example of how ESOPs can work in large companies. In the summer of 1981, when Pan Am was hanging on the financial ropes for the second time in less than a decade, it went hat in hand to its labor council, which represented its five unions, seeking wage and other concessions in a last-ditch effort to save itself.

Flight Officer Richard Phenneger, then as now a member of the council, remembers that the consensus among the union leaders was "that if the employees had to take a big hit to save their jobs, they might just as well get a piece of the action for it."

Thus was born the idea of a Pan Am ESOP. Details were worked out in long, exhausting sessions by Phenneger, Pan Am Senior Vice President Martin Shugrue and San Francisco lawyer Jack Curtis. Curtis was involved because of expertise gained as a staff member of the Senate Finance Committee when Long was its chairman.

Shugrue: "We wanted everyone to realize that you don't really share in the capitalist system just by working for wages. We wanted to get the ownership notion into people's minds."

JULIAN MORRISON is a Washington-based free-lance writer.





PHOTO: WAYNE SORCE

PHOTO: GARY KEEFER



Vice President Martin Shugrue helped draw up an ESOP that gets much credit for saving Pan American World Airways.

other example of use of the ESOP idea. The employees set up a shell corporation, which created an ESOP to borrow money for acquisition of the publicly owned Danville, Va., textile company and thus prevent an outside takeover that management considered unfavorable. This approach gave employees access to capital sources they would not have had as individuals.

ESOPs, generally speaking, have these features:

- The company sets up a trust authorized to receive the company's tax-deductible contributions of stock or cash.
- This trust must invest primarily in the company's stock, whereas most employee benefit plans can invest only up to 10 percent of their assets in the company's stock unless they can show a larger investment is prudent.
- The trust can borrow money, which other forms of employee benefit plans are forbidden to do.

Most frequently, Rosen says, the company contributes stock, either directly by printing new shares or by contributing cash for stock purchases. Either way, the company receives a deduction from its taxable income.

When a company contributes cash, it is almost always to allow the ESOP to buy out the owner or owners. The latter can treat the transaction as a capital gain instead of ordinary income, which normally would be the case if they sold their shares back to the company.

Another means is to have the ESOP itself borrow funds to buy a new issue of stock. The company guarantees the lender it will make contributions to the ESOP to cover the loan payments and, since these payments are tax-deduct-

ible, the company is deducting both principal and interest on the loan. The ESOP parcels out stock to the accounts of individual employees as the loan is repaid.

The Economic Recovery Tax Act of 1981 established a new wrinkle that allows a company to claim a tax credit, starting this year, equal to one half of 1 percent of its payroll for contributions to an ESOP. The credit increases to three quarters of 1 percent in 1985. This type of plan is known as a PAYSOP, for payroll-based stock ownership plan. It replaces an earlier form of ESOP called a TRASOP, which was based on a tax credit tied to capital investment instead of payroll and was abandoned after Sen. Long became convinced that it was of little value to companies in labor-intensive fields.

Rosen says a PAYSOP has little or no appeal to a small business, with a small payroll, but may attract large firms to the employee ownership concept. Under ESOPs, stock may be allocated to employees on a salary or per capita basis or by means of a seniority formula. The ESOP holds the stock until an employee quits or retires.

**G**ENERALLY, the law requires that an employee be vested in an ESOP stock allocation within 10 years. Most companies begin vesting after three years—the employee is then entitled to 30 percent of the stock—and follow with 10 percent increments annually.

Stock is not taxable to the employee until it is distributed, and the tax effect can be minimized then by using Individual Retirement Accounts or by tax averaging over a period of years. Companies must guarantee repurchase of the stock at fair market value.

Art Parrish says that "if the right personality isn't there—both management and employee—an ESOP isn't going to click. Workers, for instance, can't just stop being workers and become owners. The work to be done is first and foremost.

"Just because you've become an owner doesn't mean that benefits are going to be automatic or that you've got management rights. Managers still are needed just as workers still are needed. You have to know when to take off your owner hat and put on your worker hat, and both sides must have a much clearer understanding of the needs of the business."

That such an understanding has been widely achieved is shown by these examples:

- One quarter of the voting stock of Lowe's Companies, a 7,000-employee chain of home improvement stores in

Phenneger: "All of us, labor and management, recognized that ownership without participation means nothing. So that's what we negotiated for."

A plan was developed that gave the ESOP 11 million shares (13 percent) of the company's stock, guaranteed employee input through quality circles, established a joint management-labor board to operate the ESOP, set up monthly top management briefings for union leaders on company operations and finances, put an employee representative on Pan Am's board and mandated an extensive and continuous program to explain the ESOP to employees.

After years of red ink, Pan Am is operating in the black. Both management and union representatives give the ESOP high marks for the turnaround.

Dan River Mills, now wholly owned by employees and managers, offers an-



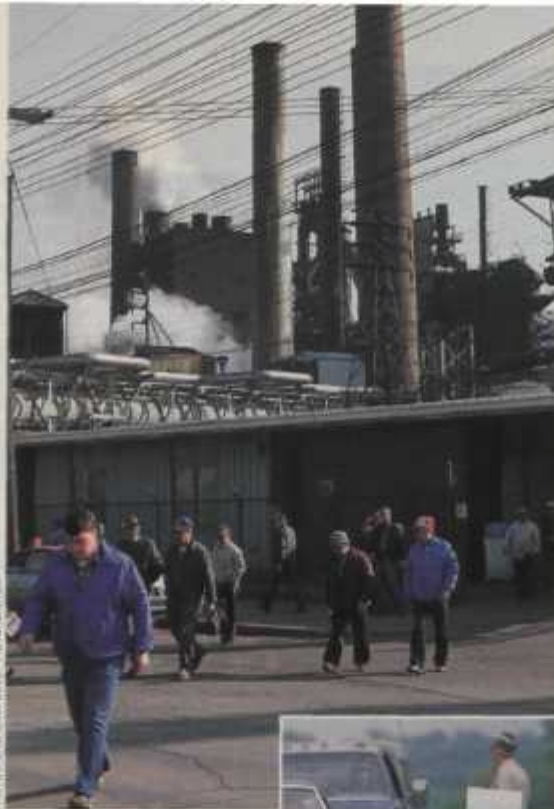
the Southeast, is owned by the workers. Sales per employee are three times those of Lowe's largest competitor.

• Productivity shot up an amazing 80 percent after workers at General Motors' virtually moribund Hyatt Roller Bearing Division in Clark, N.J., bought it through their ESOP last year. Outmoded equipment, burdensome union work rules and a deep decline in morale resulting from rumors that GM wanted to close the plant had contributed to poor performance before the ESOP was established. Now a company billboard proudly trumpets the fact of worker ownership.

• Robert Giove, president of Janco, Inc., a Los Angeles manufacturer of electro-mechanical components for the aerospace industry, says the company's 175 employees discovered the newly created ESOP law in 1975, just in time to buy the firm from a trust set up by its late founder.

Private investors were negotiating with the trust for the company, he says, "while we, the employees, were trying to figure out how to get some benefit out of the situation. We found a bank that understood what an ESOP was—most banks didn't back then—and the bank was willing to lend us the money to buy the company."

The firm has been "a great success" as an employee-owned enterprise, Giove says.



Workers got donations for a feasibility study before deciding on a plan that will make a Weirton, W.Va., steel plant America's largest employee-owned enterprise.



• In Denver, Eakers Corporation, a 24-store clothing retailer, also installed an ESOP in 1975, and 148 of the firm's 300 employees now own approximately 20 percent of the stock.

Vice President Thurman Thuer says the ESOP has "created a lot of incentives" for the employee stockholders. "We find," he says, "that they take more of an interest in what each other is doing now, because whatever anyone

does at work affects everyone else."

• Grayson Maule, president of Crane Cams, Inc., of Hallandale and Daytona, Fla., says the 300 employees of the engine parts manufacturer and retailer own 60 percent of the stock.

"The company was a success before the ESOP," he says, "but with it we have achieved productivity we never had before. Motivation is way up, and employee turnover way down."

• At Rural Metro Corporation in Scottsdale, Ariz., a fire protection company, founder Louis Witzeman retired in 1978 and used an ESOP to transfer ownership to employees, 460 of whom now own 63 percent of the stock, and managers, who own 37 percent. "Profitability is way up," says Vice President Jim Bollin. He says the stock has shown great gains in value.

• And 7,000 workers at the Weirton, W.Va., plant of National Steel Corporation voted overwhelmingly in September to accept pay and benefit cuts as part of a package under which labor and local management will own and operate the sprawling mill through an ESOP. Drastic cutbacks and possible closure were avoided, and the new Weirton Steel Corporation will become the nation's biggest worker-owned company, in terms of assets, when the plan is put into operation.

IN RESTON, VA., President Edward Driese of Scope, Inc., says his 275 workers have responded enthusiastically to a combination of a tax-sheltered savings plan and PAYSOP.

Employees of the electronics development and manufacturing firm may put up to 7 percent of their pay into the savings plan, which reduces their taxable income by a like amount. The employee may elect to have 90 percent of this amount invested in Scope stock. The company contributes half the amount contributed by the employee, all of which must be used to buy Scope stock. Scope then receives a tax deduction for the contribution plus the one half of 1 percent PAYSOP tax credit.

Driese says, "We wanted our employees to become owners. We think that we'll have long-term growth and that they should enjoy its benefits." He estimates the employee share of the company will grow 6 percent annually.

As happy as these results seem, it would be a mistake to conclude that employee ownership always is for always.

Take the case of the *Kansas City Star*, wholly owned by its employees and the target of a 1977 takeover bid. The employee owners sold the company to the bidder, Capital Cities Communications.

Jim Payne, the newspaper's controller, says the fact that many of its owners were still financing their stock

## Back on the Tax Treadmill?

When Congress passed the Economic Recovery Tax Act of 1981, it included incentives to spur employers to set up employee stock ownership plans.

The principal one: a tax credit for a type of ESOP that has come to be known as a PAYSOP (payroll-based stock ownership plan). The law calls for this credit to go to three quarters of 1 percent in 1985, up from one half of 1 percent this year and next.

A pending bill would defer the increase from 1985 to 1987, however, and business is campaigning against any such delay.

The proposed postponement is part of a broad tax bill sponsored by Rep. Dan Rostenkowski (D-Ill.),

chairman of the House Ways and Means Committee. He is calling for a freeze on a wide range of specific tax reductions provided in existing law but not yet in effect.

Rostenkowski sees the freeze as a way to reduce federal deficits. He argues that his plan does not represent a tax increase, because beneficiaries of the scheduled reductions have not yet received them.

Business groups opposing the Rostenkowski plan include the U.S. Chamber of Commerce, which argues that the proposal would "restart the harmful tax increase treadmill that Congress wisely stopped in 1981," when it voted broad reductions in personal and business taxes.



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A new element—electronic delivery—is being added to the intense competition in the courier service industry. This report details the impact of the electronic era on the industry and its business customers.

purchases made it difficult for them to raise additional money the paper needed for modernization and expansion. Thus they agreed to sell.

The *Star's* worker-owner plan was no ESOP; it was in existence before the law was written. An undetermined number of firms have such plans, ranging from direct employee purchase of stock to employee co-ops or stock option plans for workers. None offers employers the tax advantages of ESOPs, and unlike ESOPs, most require employee financial contributions.

Employee ownership researcher Rosen says ESOPs "will not substitute for markets, money and management."

He adds: "A company that believes greater employee motivation alone will solve its financial problems is deluding itself. ESOPs can make a real contribution to productivity and profitability, but they won't solve basic structural problems."

"Companies should use ownership plans as the basis for employee participation. If employees see their share accounts grow, if they really feel they are owners, they will be motivated to work harder. Management should definitely consider giving employees a voice in running the company."

**O**F COURSE, that is the sticking point for many owners. Do they really want to share ownership with the employees?

There are other factors to give an employer pause. An ESOP is expensive to create, though a profitable firm's tax benefits eventually will more than offset the expense. (The cost is a minimum of \$10,000, according to Rosen, for such items as lawyers' fees, an independent valuation when company stock is privately held or a feasibility study when an employee buyout is contemplated.) Then, too, ESOPs are complicated to set up. Rosen recommends hiring an attorney versed in the law governing these plans.

Unions have been skeptical about employee ownership plans in general, but they have supported them more frequently in recent years, especially as vehicles to save jobs. The plans are complex, and employees often find them confusing.

Jack Curtis, the former Senate aide who helped put together the Pan American ESOP, believes "the biggest single factor that will cause ESOPs to fail is lack of an effective and continuous communications program about them."

If the company is not prepared to go the whole mile, an ESOP is probably not a feasible route. But for increasing numbers of firms, it is a hot idea whose time has come. □



To order reprints of this article, see page 65.





# An Investment In Stability



Foreign investment is most welcome in the Dominican Republic, whose historic shores are bathed by both the Caribbean and Atlantic. Because of its stability and geographic location, the nation will benefit from the Caribbean Basin Initiative program.



**W**E FIRMLY BELIEVE that to achieve our economic objectives, we need to complement our internal effort with the help of our fellow nations on the continent, particularly the United States," says Dr. Salvador Jorge Blanco, President of the Dominican Republic. "Therefore I extend a warm invitation to foreign investors to participate, individually or in joint ventures with Dominican investors, in financing projects in those sectors vital to our economy, helping to consolidate the process of economic, social and political development in the Dominican Republic."

The Dominican Republic, which shares the island of Hispaniola with Haiti, can justly lay claim to being the cradle of the Western Hemisphere. Columbus discovered the island on December 5, 1492, on his first voyage.

The first permanent European settlement was established in 1493, and Santo Domingo, the capital, dates back to 1496. That city became the center for expeditions by Spanish explorers.

Today, despite two oil crises, recession and double-digit inflation around the world, the country has been able to maintain internal economic stability. An indicator of this is the nation's 7 percent

inflation rate, the lowest in all of Latin America, for the past two years.

Over the past few years the Dominican Republic has enacted a series of laws that are favorable for foreign trade and investment.

In general, these laws provide generous incentives to private investment, both domestic and foreign, like the elimination of import duties on raw materials, capital goods, fuels, etc.; exemption from corporate tax and income tax as well as municipal and local taxes; currency exchange incentives; and a tax payment certificate that can be used to pay any kind of tax in the Dominican Republic. Many North American companies have availed themselves of the opportunities these incentives provide.

**Investment incentives.** Law No. 861 established guidelines for the sectors available for foreign investment. Sectors reserved for domestic investment include drinking water, electric power, postal services, telecommunications, forestry, publicity, radio and televi-

sion broadcasting and internal transport, except that directly linked with imports and exports.

However, these sectors can receive foreign technical contributions under licensing agreements and foreign investment up to a maximum of 30 percent of the total capitalization of the firm.

**Industrial incentives.** The government grants an exemption of 50 to 100 percent from income tax and of 90 to 100 percent from import duties. These percentages vary according to the objectives and nature of the industry and depend on whether the industry manufactures products exclusively for export or import substitution, or whether it processes local raw materials or produces products for domestic consumption.

**Industrial free zones.** The Dominican government has established free zones in which foreign and local manufacturers can set up production plants, which benefit from substantial tax and import incentives. The free zones in operation at present are located at Santiago, San Pedro de Macoris, Puerto Plata and La Romana.

- Manufacturers can import free of duty and excise taxes all needed machinery and equipment. All exports are exempt from payment of any duties, taxes or tributes.

- Complete exemption from all taxes for companies chartered outside the Dominican Republic and freedom from foreign exchange regulations.

**Corporate income tax.** The corporate tax rate, which does not apply to firms granted tax concessions, is:

Taxable Income (In RD pesos)	Marginal Tax Rate (In percent)
0 - 5,000	10
5,000 - 10,000	13
10,000 - 20,000	16
20,000 - 30,000	19
30,000 - 40,000	22
40,000 - 50,000	27
50,000 - 60,000	31
60,000 - 100,000	36
100,000 - 250,000	41
250,000 and over	46

**Repatriation rules.** Net profits from a registered foreign investment may be repatriated freely but are limited



# DOMINICAN REPUBLIC

to 25 percent of the total investment for each fiscal period.

Repatriation of capital is permitted when an investor sells his shares, participations or rights to national or foreign investors or when the enterprise is liquidated.

**Double taxation relief.** The government has a tax treaty with the United States to prevent double taxation of income earned in the Dominican Republic.

**Tourism incentives.** Tourism has become one of the Dominican Republic's leading growth sectors. From 1971 to 1980, visitor arrivals showed an average annual growth of approximately 19 percent. Many hotel rooms have been added in recent years to bring the total number to well over 4,000.

The Department for the Development of Tourist Infrastructure (INFRATUR) promotes and finances the development of tourist facilities under the direction of the Central Bank.

The government welcomes investment in its tourism industry in the following areas:

- The provision of services at the principal beach sites in the country.
- The construction of regional tourist centers in the southeast, the central region, the east and northeast.

- The construction of hotels and cottages at the country's main beaches.

- Development and tourist projects in the southeast and the northeast.

The law provides the following benefits for a period of 10 years:

- Income tax exemption of 100 percent.
- Exemption from construction taxes, taxes on incorporation or capital increases.
- No import duties or taxes.

The government's monetary authorities guarantee the necessary foreign exchange for the import of required goods and services. They also guarantee the repatriation of all capital, interest, commissions, dividends, capital gains, etc., over a specified period of not less than 10 years for investments in real property and not less than five years for investments in equipment and furniture.

**Banking services.** The Central Bank of the Dominican Republic is responsible for the national monetary system, the stability of the peso, the overall credit policies of the commercial banks and the liquidity and solvency of the commercial banking system. In the international realm, the Central Bank maintains the convertibility of the peso, administers the monetary reserves and



Casa de Campo, a Gulf&Western resort, is typical of posh new tourism facilities.

affects all foreign exchange operations.

There are 14 commercial banks—some of them among the most prominent in the world—8 mortgage banks and 17 finance companies. These promote economic development by providing medium- and long-term loans to developing industries, agribusiness, transportation and tourist facilities.

**Communications.** Compania Dominicana de Telefonos, C. por A. (CO-DETEL), a subsidiary of GTE Corporation, provides telecommunications services to major urban centers and smaller towns and connects many smaller communities to its domestic and international telephone network.

International long-distance service is provided by submarine cable to one of the world's largest cable stations on St. Thomas, U.S. Virgin Islands, which permits direct communications throughout the world. Another significant facility for long-distance service is the Direct Distance Dial system, which permits direct dialing to any telephone located in World Zone No. 1—the United States, Canada and the Caribbean.

**Business assistance.** The Directorate of Foreign Investment administers the foreign investment laws, reviews all applications and sets the conditions governing investment proposals.

The Department for the Development of Tourist Infrastructure provides potential investors with information and financial services related to tourist investments. Inquiries should be addressed to INFRATUR, Central Bank of the Dominican Republic, Santo Domingo, Dominican Republic. Tel: (809) 685-6151.

The Dominican Center for Export Promotion (CEDOPEX) provides potential investors with information on foreign investment laws and regulations. Inquiries can be addressed to CEDOPEX offices:

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Foreign investment is welcome in the Dominican Republic. The government, one of the few stable and eminently democratic in the region, has implemented several laws that provide incentives to ensure a continued flow of foreign capital to the country.

The Dominican Republic is in a unique position to take advantage of the Caribbean Basin Initiative because of its political and business climate, which is very favorable to foreign investment, and because of its geographic location at the crossroads of the Caribbean.

In the past this island republic has proven to be a land of opportunity for many business people and will surely continue to be so.

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**H**OUSE REPUBLICAN Leader Robert H. Michel had easily won election 13 times in his conservative district in Illinois, but he barely survived a challenge from a 31-year-old Democratic labor lawyer last year.

High unemployment and inflation, a depressed farm economy and foreign policy restraints on exports by the district's largest industrial employer combined to pose a major threat to Michel's future in the House.

He was not alone in his imperiled position. Many other conservative candidates, just two years after the Reagan landslide of 1980, had to confront voter wrath over the continuing recession.

Business' political strategists, who had set out to build on the 1980 gains in the congressional bloc oriented toward free enterprise, had to fall back to the defensive theme that the Reagan program had not become fully effective and needed more time.

On the eve of another election year, however, most of the factors that gave Michel and many other conservatives a close call have abated. Instead, the 1984 campaign is getting under way in the type of environment Republicans hoped for in 1982: a booming recovery.

Democrats had planned to base their 1984 drive on detailed charges of economic mismanagement by the Reagan administration. But they find themselves turning more and more to advocacy of the generalized concept of an industrial policy as an alternative to the Reagan program.

Because of the swift and strong economic turnaround, business' political strategists are beginning to plan for campaign activity geared to the theme that the Reagan approach of supply-side fiscal policies that stimulate production and employment is demonstrably working. They will be working for the election of candidates who will not only support but also strengthen those policies.

Focal point of the effort is the Reagan program of lower taxes and spending, regulatory reform and controlled growth in the money supply. The business strategy will be aimed at advancing these policies to new levels.

The U.S. Chamber of Commerce, for



House Republican Leader Robert Michel had a close call in 1982, when the recession hurt many GOP candidates.

## '84 Elections: How Business Hopes To Win

Conservatives' chances are brightening with the economy.

example, is mounting a drive aimed at having "a major impact on the outcome" of the 1984 elections.

Van P. Smith, the Muncie, Ind., businessman who is vice chairman of the U.S. Chamber, is spearheading the organization's new project. It is aimed at voter registration, political action and specific legislative goals. The basic theme: free the U.S. enterprise system from government restraints, and "watch America grow."

A voter registration plan is not as unusual as it might sound for a business organization; U.S. Census Bureau figures show that 25 percent of the nation's 2.5 million business managers were not registered to vote in the last congressional election.

The Chamber campaign will be designed to elect candidates committed to:

- Further controls on federal spending through such reforms as amending the Constitution to require a balanced budget, limiting the power of Congress

to raise taxes in excess of economic growth and giving the President authority to veto individual spending items within broad appropriations bills that now come to him on a take-it-or-leave-it basis.

- Supporting additional tax policy changes to encourage economic growth and enhance the ability of the nation's exporters to compete in international markets.

- Requiring periodic review of all government agencies to determine whether their continued existence is justified. This review would also cover entitlement programs, paper work requirements and federal regulations generally.

A feature of the Chamber campaign, Smith said, will be a "promissory vote," by which "probusiness Americans individually promise to register, vigorously support and vote for candidates who commit themselves to endorse certain basic principles" incorporated in the legislative goals.

Promissory vote forms will be distributed by the Chamber's members—200,000 companies, 2,700 state and local chambers of commerce and 1,300 trade associations.

They will retain a copy to assist voter registration drives, and a copy will be forwarded to the Chamber, which will coordinate the national effort.

Elsewhere on the political scene, one of the most politically active trade associations anticipates greater bipartisan support by business in 1984. Randall B. Moorhead, vice president of the 700,000-member National Association of Realtors and director of its political affairs, predicts that "business political action committees will pick candidates more as individuals than by party affiliations."

However, representatives of many business-oriented PACs say that their organizations will have at least one political goal that has a definitely partisan flavor.

They want the Republicans to continue in control of the Senate.

That control is widely viewed in the private sector as a necessary counterbalance to liberal initiatives, which often are in the form of higher spending, in the Democratic-controlled House. □



# The Personality Of A Top Salesperson

How to choose the people who can successfully sell your product.

By Jeanne and Herbert Greenberg



Many executives take constant turnover in salespeople for granted.

ONE OF THE MYSTERIES of the business world is why sales and marketing executives assume that low productivity and the resulting high turnover in their sales personnel are inevitable in their field.

Twenty percent of all salespeople now make 80 percent of all sales. That means 80 percent of the sales force fights over the remaining 20 percent of the business not produced by the real pros.

With so many people competing for shares of such a small pie, the turnover rate obviously is very high. But executives are willing to accept, as a cost of doing business, the unending expenses of recruiting, selecting and training the continuing flow of newcomers into the sales ranks.

JEANNE AND HERBERT GREENBERG are principals of *Personality Dynamics, Inc.*, of Princeton, N.J., a psychological testing firm, which assists companies in the evaluation and selection of sales and management personnel.

They should, instead, recognize that the poor productivity and high turnover rampant in the sales field are the direct results of faulty hiring practices.

In study after study on the effectiveness of sales personnel, we have found that more than 55 percent of them have no ability to sell. Another 25 percent have sales ability but are selling the wrong product or service. The remaining 20 percent are doing precisely the right jobs for themselves and their companies, and invariably they are the ones that make 80 percent of all sales.

Our research in evaluating half a million successful and unsuccessful applicants for sales positions at more than 11,000 companies convinces us that when the right people are hired and given effective training and supervision, productivity will be relatively high throughout the entire sales force.

Early on we became concerned with the question of why industry experiences such colossal failure in predicting whether an individual can sell successfully. The answer lies in failure to un-

derstand the personality attributes necessary to succeed in selling.

Salesmanship involves being on the line. It takes a very special person who can ask for an order assertively and take the inevitable amount of rejection involved.

**WHAT KINDS OF** persons are motivated to expose themselves daily to the abuse, rejection, risk and even hostility that salespeople must endure to make a living? Through long observation, we have found that successful salespeople need three basic traits and several additional qualities related to the specific sales situation. These are the major dynamics required:

**Empathy.** The ability to accurately sense the reactions of other persons and to recognize the clues and cues they provide allows you to relate effectively to them. A salesperson simply cannot sell well without the invaluable and irreplaceable ability to get powerful feedback.

The salesperson with poor empathy aims at the target as best he or she can but lacks the guidance mechanism to home in on the bull's-eye. The one with excellent empathy is not hemmed in by prepared sales tracts but can sense prospects' reactions and make the creative modifications necessary.

**Ego drive.** This is the inner need to persuade another individual as a means of gaining personal gratification. The ego-driven individual wants and needs this victory in an intensely personal way as a powerful enhancement of self-esteem. Ego drive is not ambition, aggression, energy or even the willingness to work hard. The ego-driven individual needs achievement in successful persuasion, not only for the material benefits but for the feeling of satisfaction that comes from the victory.

Such individuals work hard to en-



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## NATION'S BUSINESS

**Q** Are you looking for a business magazine that provides accurate economic forecasting?

**A** NATION'S BUSINESS, January, 1983:  
"The U.S. Chamber of Commerce projects that consumers will get the economy moving this year as they respond to lower interest rates and more disposable income."

**Q** Do you need insight today into tomorrow's federal decisions that might affect your business?

**A** NATION'S BUSINESS, February, 1983:  
"An immigrant from Kenya might succeed in overturning Congressional authority to block executive branch actions." In June, the U.S. Supreme Court held the legislative veto to be unconstitutional.

**Q** Are you aware that the Soviets may be after your trade secrets?

**A** NATION'S BUSINESS, June, 1983:  
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hance egos and to do things that make them feel good about themselves. For the real sales pro, that satisfaction comes from the successful one-on-one persuasion of another person. The ego-driven individual feels 9 feet tall when the prospect finally says, "I'll take it."

It must be recognized that although empathy and ego drive are separate characteristics, they are inseparable when it comes to sales ability. Ego drive is the motive force launching the

uals with healthy, intact egos like and accept the way they are. This permits their personality dynamics to operate freely and fully, and they function at or near top capacity.

The major personality dynamics of successful salespeople, then, are empathy, ego drive and ego strength. Lack of any one characteristic can guarantee sales failure, but possession does not automatically guarantee success.

Depending on the specific sales situa-

is selling smaller-ticket items could, on the other hand, come to view his job as boring and repetitive, thereby jeopardizing success.

Other abilities necessary in many sales situations involve the ability to make quick analyses and judgments, to negotiate and to prospect systematically and persistently.

Therefore, the overall challenge in selecting sales personnel is matching functional requirements of a specific job to the personality attributes of an individual.

Industry too often fails to understand the real psychology of the successful salesperson and creates artificial hiring criteria that can screen out potentially effective people.

Our studies have shown that such hiring criteria as age, sex, experience and formal education are invalid as predictors of sales success.

One computer company that had an outstanding product and an excellent reputation asked us to determine why it was having such low productivity and high turnover among its sales force. We found that the company had recruited its salespeople from the top 10 percent of the graduates of the country's best engineering schools, describing the jobs as far more technical and far less sales-oriented than they actually were.

As a result, the company had salespeople who were very intelligent, creative and technically brilliant—but were abysmal failures in selling.

We advised the firm to seek students who had the personality traits to become successful salespeople, even if they did not have the imposing academic credentials sought previously.

In this company's case, grades in a particular school had not only failed as a guide to potential achievement but had also screened out people who could actually do the job.

Given the staggering cost of mistakes in hiring, it obviously is good business to make every effort to eliminate or reduce the number of such mistakes.

The answer lies in selecting people who possess the right personality dynamics. Only then will you succeed in reducing turnover, absenteeism and job dissatisfaction and increase your chances of hiring highly productive people. □



To order reprints of this article, see page 65.



A salesperson may have the right attributes but still not be able to handle a large territory.

salesperson toward the potential customer, and empathy is the guidance mechanism that allows the salesperson to follow the prospect through evasions and objections until the prospect's real needs are targeted and the sale is closed.

The individual with a great deal of ego drive and not much empathy will win over a certain number of customers through sheer drive, but one sidestep by a prospect will result in the salesperson's running into the outfield fence.

On the other hand, the seller with a great deal of empathy and not much ego drive is probably a nice person and will even get a few orders because of that. But he will lose too many sales because he is lacking the real motivation to close.

**Ego strength.** Salespeople need resilience to bounce back from rejection and be even more motivated on the next attempt. They must never feel totally demolished when a sale is lost. How rejection is dealt with is as basic to successful selling as having empathy and ego drive. The degree of self-acceptance is a key to sales success. Individ-

tion, other attributes come into play. For example, a salesman hired by a client on our recommendation a few years ago had the necessary empathy, ego drive and ego strength, and he succeeded brilliantly in his original assignment. But he failed when his company, despite our advice to the contrary, gave him a new opportunity.

The first job had been in the highly structured environment of the home office, where he worked under close supervision. In the second, he was on his own in a vast territory. The job required someone who, in addition to possessing the basic attributes, was a self-starter who could plan and organize his work and manage his time well. This individual lacked those abilities. He would not return to a lower-status job, and he left the company.

**A**NOTHER TRAIT necessary in some sales situations but not others is the ability to deal with complex ideas and concepts. This is particularly true in the sale of big-ticket items that require technical explanations.

A conceptually oriented person who



**W**ILL PRICES go up next year? Will labor unions try to reverse concessions they made during the recession? Can Federal Reserve Board Chairman Paul Volcker deliver on his promises to restrain inflation, despite the recovery and election year pressures to reflate the economy? How long will the current expansion last?

Those are some of the questions that wary business people are asking as they plan for 1984. The answers will be determined in part by the nation's central bankers, who are influencing the pace of the recovery by controlling the growth of the money supply.

To an extent unprecedented in recent business cycles, the little known Federal Open Market Committee's actions are being watched closely not just by bankers but by business, too, for clues to how rapidly the economy will grow.

The FOMC is made up of the seven governors (members) of the Federal Reserve Board, the president of the New York Federal Reserve Bank and four of the other 11 regional bank presidents, who serve one-year terms on a rotating basis. The committee must navigate the narrow straits between too much and too little growth in the money supply.

Supply is controlled through the Fed's purchases and sales of Treasury securities. These transactions, known as open market operations, expand or contract banks' reserves and thus the amount of money that the banks can put into circulation through loans. Open market operations are conducted by the New York Federal Reserve Bank, following policies set by the FOMC.

If the money supply grows too rapidly, the economy also will grow rapidly, but at the cost of raising inflationary expectations that, in time, will push up long-term interest rates and stifle recovery. If the supply grows too slowly, short-term interest rates could be pushed up by the competition for limited funds, reducing the demand for



Cleveland Federal Reserve Bank President Karen Horn, who speaks for the Midwest on the Federal Open Market Committee, says using money supply growth as an economic indicator has gotten trickier.

she says, "has generally been underestimating the strength of the recovery and failing to tighten [M1 growth] early enough to be sure that inflation doesn't get started again."

Earlier this year, she says, it became more difficult to interpret M1 as an indicator of future economic activity because financial deregulation encouraged banks' customers to move more money into transaction accounts—part of M1—that were paying interest for the first time. M1 was thus growing rapidly, but this did not necessarily indicate rapid growth of the economy.

Also, Horn says, an unexpected slowdown in the velocity—turnover—of money in the economy meant that "a given amount of money supply supported much less economic activity than it used to."

As the altered nature of M1 becomes better understood, it will again be possible to use it as a more or less reliable indicator of future economic activity, says Horn. "I will be focusing more and more on M1 in the future."

But Fed statisticians caution against attaching very much significance to large weekly swings in the money supply, because of the margin for error in seasonal adjustment factors. Four-week moving averages present a better picture of money supply growth and FOMC policies.

Horn is the central banker for companies doing business in the Fourth District, a heavily industrialized area that includes Ohio, western Pennsylvania and parts of Kentucky and West Virginia. Like other district bank presidents, she sits atop formal and informal networks that gather information on prices, inventories, delivery times and other indicators of business conditions. Informal conversations between bank officials and business people supplement statistical information that can take weeks or months to gather and tabulate.

"Current observations and anecdotal

## How the Fed Turns a Key To Recovery

By Peter A. Holmes

housing, autos and other consumer goods bought on credit.

One measure of business' concern: At a recent quarterly meeting with officials of the Fourth District Federal Reserve Bank in Cleveland, about 30 corporate economists spent half a day telling the bankers how fast they think the money supply should grow.

**I**N RECENT MONTHS, M1—the money held in currency, checking accounts, traveler's checks and other demand accounts—has grown at a 5 percent annual rate. That is much slower than the record 13 percent growth rate registered over the 12 months ending last May.

Karen Horn, president of the Cleveland Fed bank and a member of the FOMC, heartily approves of recent efforts to slow down the growth of M1. "The mistake that the Fed has made over the last several business cycles,"



information are terribly interesting, particularly if we are concerned with the possibility of crowding out," says Horn, referring to fears that excessive federal spending will push up interest rates and slow the recovery. "We don't want to see that in collected data. We want to start hearing about it from people who are changing decisions that they otherwise would make."

Information collected through the regional banks' networks becomes part of the intelligence presented at FOMC meetings, which are held in Washington every six weeks.

Charles Partee, a Federal Reserve Board governor, explains what happens next. "Before each FOMC meeting the professional staff reviews the economic data available. Policy implications are then examined to see what shifts, usually minor, in monetary policy might fit the new circumstances. It is a continuous process of evaluation. Basically, comparisons between actual performance and the forecast are made, and decisions as to how the forecasts should be changed are agreed to."

Forecasts are sometimes wrong; the Fed underestimated the strength of this year's boom in consumer spending. But, says Fed Governor Henry Wallich, forecasts are nonetheless necessary because monetary policy is a crude tool best suited to managing economic performance over the long run.

Since the effects of a contraction or expansion of the money supply may not show up for months (in the case of interest-sensitive consumer goods) or a year or two (in the case of inflation), forecasts and the economic models they are derived from give the FOMC a picture of what the future may hold for different sectors of the economy.

But the FOMC has its critics. One is Allan Meltzer, a spokesman for the Shadow Open Market Committee, a group of professional economists who meet regularly and critique the Fed's performance. He blames high interest rates, in part, on the risk premium that credit markets assign to uncertainty about whether the FOMC will do what it promises: attain price stability.

Meltzer argues that the Fed should announce in advance what its monetary targets are going to be and then stick to them, regardless of changing economic conditions. Instead of targeting M1 or some other measure of the mon-

ey supply that the Fed has only partial control over, Meltzer argues, the Fed should control the monetary base—the money in currency and bank reserves.

Federal Reserve officials dismiss Meltzer's idea as unworkable. They contend that paying attention to only one variable in the economy, the monetary base, would play havoc with interest rates, since banks' reserve requirements would have to change with the frequent expansions and contractions of the amount of currency in circulation.

Others applaud current FOMC poli-

Motors, the largest buyer of machine tools, warn that "investment may play a lesser role in this recovery compared with average recoveries."

What worries business are estimates by Treasury Secretary Donald T. Regan and Federal Reserve Board members that an \$80 billion to \$120 billion gap between federal spending and record tax revenues will persist even when the work force is fully employed.

Concern over record federal deficits is largely responsible for high interest rates, according to a survey of members of the National Association of Business Economists. A Treasury Department study shows, however, that the link between budget deficits and interest rates is tenuous at best, and other economists blame the volatility of the money supply for high interest rates.

Although Milacron's Geier is eager for a growing economy to lift his company out of the recession, he says he can "remember when we didn't have inflationary expectations. If we can get the inflationary expectation problem licked, there is no telling what that will lead to."

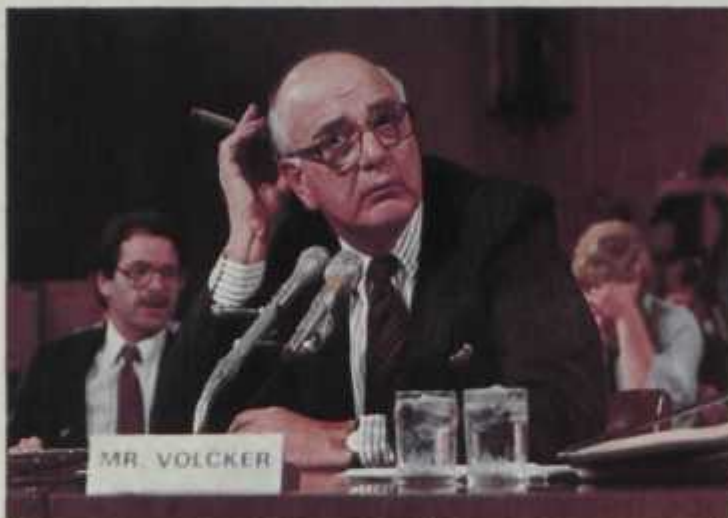
Whether the FOMC can

navigate the passage from recession to full recovery without setting off a new round of inflation is the big unknown. So far, through a combination of luck and good judgment, the pitfalls of money supply growth that is either too fast or too slow seem to have been avoided.

Just ahead, seasonal stresses will again influence M1's behavior as consumers spend more, boosting demand for currency. Horn says Fed officials are now paying close attention to loan demand and the rate charged banks for money borrowed overnight, making sure that bank credit and deposits are adequate to meet demand.

Bank deposits are running slightly behind the Fed's forecast. The FOMC is watching closely to see whether M1 is growing too slowly. If so, new reserves may be added to the banking system, and this could bring down interest rates.

In the long run, the FOMC's success in keeping inflation down and the economy up may depend less on its own actions than on Congress' willingness to control federal spending. Congress has passed three tax hikes since 1981, but it has yet to show much spending restraint. □



Federal Reserve Board Chairman Paul Volcker tells a congressional committee that anticipated federal budget deficits are too big.

cies. David Littmann, senior economist at Manufacturers National Bank of Detroit, says a slowdown in money supply growth this year "is a prelude to lower interest rates next year." He adds: "Slow growth in the money supply gives greater stability and durability to the recovery."

**I**F SO, THIS WILL be good news for the economy. If demand rises steadily, it will begin to press the economy's production capacity—and that should signal the long-awaited onset of the capital investment phase of the recovery.

The healthy amounts of cash accumulated this year by many companies that serve consumer and business markets must be invested in capital goods if the recovery is to benefit all sectors of American industry. Recovery for producers of capital goods is so far elusive.

"We are still very much in the recession," says James Geier, chairman of Cincinnati Milacron, Inc., the nation's largest maker of machine tools. Demand has not yet pushed production capacity in metalworking industries "to that magic 80 percent," he says.

But some economists, like Marina Whitman, chief economist for General



# Preparing for the Real World

**E**NROLLMENT has doubled over the past five years at the College of Automation in Chicago. Responsible, in part, was the addition of a major program to teach use of personal computers in the office.

The program was added at the recommendation of an advisory committee of business people, who help keep the school's curriculum aligned with the real-world needs of Chicago area employers.

Such curriculum changes are typical of what is happening in one of the fastest-growing areas of education today—the privately owned business schools providing job training that is targeted at employment opportunities identified by business.

Interest in these schools has accelerated in recent years under two pressures. One: the nation's shift toward a service-oriented economy in which need for unskilled labor is falling and need for technical skills is rising. The other: the recession, which sent high school and college graduates, as well as many veteran workers whose jobs had vanished, in search of training needed to compete in a fast-changing economy.

A result of that change has been, in many areas, the coexistence of job vacancies and high unemployment. "People aren't prepared for the jobs available," says Stephen Friedheim, president of the Association of Independent Colleges and Schools.

AICS, a Washington-based organization, represents 550 job-training schools with a total enrollment of nearly 400,000. The schools specialize in a wide range of occupations, many of them computer-oriented. They include secretarial and clerical skills, information and data processing, health care, culinary arts, fashion merchandising, electronics and business administration.

Many such institutions have seen their enrollments increase as much as 25 percent in recent years, Friedheim reports. "These schools know where the jobs are and how to train people to get them," he says.

He cites Labor Department statistics indicating that, in 1990, about 80 percent of the job openings in the nation will not require a bachelor's degree.

Friedheim advises business people concerned about the relationship between jobs and education to keep a close eye on the overall school situations in their home areas.

He urges that particular attention be paid to efforts to downgrade business

education at the high school level, where "not long ago, it was a vital part of most curricula."

Education policymakers should be made aware, Friedheim adds, that "today's students are far more oriented toward money" than were many of their predecessors of a decade ago, when there was more interest in social-service fields.

**A**NOTHER MAJOR CONCERN in the business education field today is a shortage of secretaries—300,000 to 400,000 at present. The day is over, Friedheim points out, when career-minded women headed for only three areas considered their special domains—secretarial jobs, teaching and nursing.

One effort to counter the trend away from choosing secretarial careers is the work of the National Task Force on the Image of the Secretary, sponsored by AICS and 24 other organizations.

"The secretary's job has changed sig-

nificantly," Friedheim says, noting that technological advances in the office mean that "routine functions can now be handled in a mechanized manner, and personnel who traditionally have done routine tasks will have greater opportunity for involvement in other kinds of activities."

Secretaries and other support personnel, he adds, "will be asked to do far more decision making, research, planning and independent work."

Difficulties employers encounter in hiring qualified secretaries have had "some positive impact," Friedheim reports.

"It's the old law of supply and demand. Employers are more conscious of, and responsive to, the contribution the secretary makes."

He also points out that, in view of the changing nature of the secretary's job and the rising pay, "more and more males are looking seriously at the secretarial field as an opportunity." □



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# **Defending Defense Secrets**

**A spy case shows more must be done.**

By Henry Eason

**O**NE CAN'T BE out in the cold all the time; one has to come in from the cold." So spoke a British spymaster in one of John Le Carré's espionage tales.

James Durward Harper, Jr., reportedly described his own plight in similar terms when, an FBI document says, he tried to come in from the cold before his arrest for selling more than \$250,000 worth of American military secrets to the Polish intelligence service.

Harper has been cooperating with federal authorities, they say, since the government spurned his offer to become a double agent in exchange for immunity from prosecution.

The story is one that could have come from a novel. But the disturbing reality is that Harper's wife—an alcoholic secretary at a Palo Alto, Calif., data processing firm—siphoned hundreds of pounds of documents from the U.S. Army's highly secret Ballistics Missiles Defense Advanced Technology Center in Huntsville, Ala.

Over several years, Ruby Schuler Harper gave the stolen materials to her husband, the FBI alleges. Together, one financially strapped couple compromised the nation's ability to defend its land-based intercontinental nuclear missiles from a pre-emptive strike by the Soviet Union.

The Harper case is the most recent—and most dramatic—indication that there are holes in the security screen the government has tried to erect between Soviet spies and the more than 1 million people who perform work for the Pentagon.

In its June edition, NATION'S BUSINESS warned that Defense Department clearance methods for military contractors' personnel are inadequate. The Harper case underscores some of the major security flaws cited in the article.

On October 16, Federal Bureau of Investigation agents arrested Harper, a Silicon Valley computer engineer, at his Mountain View, Calif., home. He is charged with espionage and is facing possible life imprisonment.

Ruby Harper escaped prosecution. She died at the age of 39 on June 22 of cirrhosis of the liver. But defense contractors have much to learn by focusing on her role in the theft of Army documents.

Mrs. Harper was given the Defense Investigative Service's customary security clearance review in 1972, when she joined Systems Control, Inc., of Palo

Alto. She was a secretary-bookkeeper, but because of the highly classified nature of SCI's work for the Defense Department she was given a "secret" grade security clearance.

Though not trained to understand the complicated nature of the work that SCI performed for military facilities, she had access to vital materials.

Friends have said she developed a drinking problem, one that was evident to some of her co-workers. She also obtained a divorce from the man she was married to before she met Harper. Her lifestyle changed—a sign, American spy hunters believe, that a person in a sensitive job may become susceptible to Communist overtures.

Thomas O'Brien, director of the Defense Investigative Service, says it is not the Service's custom to reinvestigate defense industry workers, unless their actions arouse suspicion.

The service's 1,153 agents are too overworked to keep pace with the security clearances required for new defense employees. The agents perform about 180,000 such investigations annually, and in recent years DIS has been plagued with backlogs.

**T**HE HARPER case also illustrates what can happen when a defense contractor's physical plant security is not tight.

Even large defense manufacturers with hundreds of uniformed security officers and careful procedures are susceptible to theft. Since 1977 both TRW and Hughes Aircraft secrets were stolen by Americans working for Soviet bloc spy services.

Greater risk is found with the small emerging firms, says FBI counterintelligence chief Edward O'Malley. The smaller the company, the more lax the security procedures tend to be. Some firms, the FBI says, see security as red tape.

Government officials are not commenting on the Harper case, beyond citing those details of their investigation that are pertinent to Harper's prosecution. But it is clear that the country's most recent spy scandal will put a more intense spotlight on how defense workers are cleared to work on secret projects and on how defense contractors live up to the security requirements the Defense Department mandates for all of its sensitive military programs. □



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**H**E HEADS an electric power company that is well into the nuclear era. But ask Floyd Lewis what he looks for in a manager, and you will get an answer as old-fashioned as a wood stove.

"I look for a lot of common sense," he says. "Perceptiveness in terms of appraising and leading people. Hard workers. An ability to get the big picture and achieve goals by working through people."

He doesn't denigrate technical expertise: "Many times I wish I were an engineer." But, he adds, "I don't think you have to be technically proficient with nuts and bolts to be a good manager."

Lewis himself would never say so, but many of his colleagues in the utility industry believe his conception of a good manager's qualities pretty well covers the characteristics that brought him to his position as head of Middle South Utilities, Inc.

The New Orleans-based holding company, with operating revenues of nearly \$3 billion a year, provides electric power to customers in Louisiana, Mississippi, Arkansas and Missouri through four subsidiary operating companies backed by separate service and fuel subsidiaries.

Lewis, 58, went to work 34 years ago for one of the operating companies, New Orleans Public Service, Inc., as No. 2 lawyer on a two-man legal staff. His lack of engineering or other technical skills was no bar over the following years to his assuming increasing responsibilities in many areas of Middle South's complex operations.

Early on, the Mississippi-born Lewis learned that timing can sometimes be highly helpful to a career.

Two years after he joined New Orleans Public Service, a major law firm made his immediate boss a lucrative offer that Lewis describes as "the best thing that ever happened to me."

Lewis took over the boss' slot, "which threw me into daily contact with all the officers of the company. It just opened up a door that would not otherwise have been opened. I sat in all the executive staff meetings, listened to the discussions of policy matters and



It through the 1960s, Lewis recalls, the electric power industry was a fairly stable world: "We were continually decreasing unit costs to consumers. We could build a gas-fired generating plant in three years for less than \$100 per kilowatt. Low-interest capital was plentiful. Customer use of electricity grew 9 to 10 percent a year, and we were able to build to serve the need at lower cost."

But when he took over leadership of the Middle South system, he recalls, "I walked into a traumatic period unparalleled in the history of our industry."

The 1970s brought the Arab oil embargo and skyrocketing fuel costs, a vast new complex of environmental and other controls on construction and operation of power plants, inflation and interest rates that drove building costs relentlessly upward, and the Three Mile Island incident, which intensified concern about the safety of nuclear installations and strengthened the antinuclear movement throughout the country.

Although added capacity in previous decades allowed a reduction in unit costs, Lewis says, economic factors today produce the opposite result.

"When any major new plant goes into operation now," he says, "you have to adjust your rates upward. With coal or nuclear plants, which are the only two viable options for major new capacity for the balance of this century, you are looking at costs of \$1,000 to \$2,000 per kilowatt, compared with less than \$100 for our older plants." Construction time

ranges from six to eight years for a coal plant to 10 to 14 years for a nuclear plant, he notes.

He also cites a regulatory practice that bars utilities from incorporating new plants into rate bases until they are actually in operation. As a result, Lewis says, "some companies have 50 percent of their capital tied up in plants under construction and cannot use that investment to generate cash income during the terribly long construction periods."

Lewis has been active nationally in efforts to win public support for policy

## The Timeless Skills of A Modern Manager

Nothing is better than good sense, says a utility industry leader.

By Robert T. Gray

was involved in the drafting of documents to express policy decisions."

He was vice president and chief financial officer of the New Orleans unit when, 11 years later, he began a series of moves in two other operating companies that eventually brought him to the pinnacle of the parent company. He became president in 1970 and added the title of chief executive officer in 1972. (He is now chairman and president, Middle South having dropped the CEO title.)

At that point he learned that timing can work two ways. From World War





Floyd Lewis stands at the New Orleans riverfront, site of the 1984 World's Fair. Lewis is chairman of the event.



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WE ARE BUILDING THE  
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MAY 12, 1984 TO NOV. 11, 1984

decisions that are vital if his industry is to supply electricity needed by an expanding economy.

The basic problem, he says, is one of perception:

"We know we are still the people in white hats, but many people out there see us as money-grubbing black hats, trying to get our hands deeper and deeper into their pockets. And we have failed to communicate who we are and what we really are about. We now are trying to do something about that. We must be more outgoing, even aggressive, in telling our story."

He has been trying to tell the industry story through leadership roles in such organizations as the Edison Electric Institute, trade association of investor-owned utilities; the Atomic Industrial Forum; the American Nuclear Energy Council; and the U.S. Committee for Energy Awareness.

The latter is a newly formed industry group, which Lewis serves as vice chairman. Its objective, he says, is "to gain broader public understanding that an adequate and reasonably priced supply of electric energy is essential for a strong and expanding American economy and that a diversity of energy sources, including coal and nuclear, are necessary."

Public utility executives who face the need to build additional generating capacity, Lewis says, must try to function in an atmosphere where it is difficult to answer with certainty questions like

these: Can we get a permit? What is it that we will ultimately be able to build? How long will it take? What is it going to cost?

He adds: "There are those who say you will see no more orders for nuclear reactors in this country until you remove a considerable part of the great uncertainty that exists today. There are so many imponderables that one man in the industry has described it as a game of 'you bet your company.'"

The industry is seeking cost-cutting reforms such as expedited procedures for construction and oper-

been spared actions that have blocked or delayed nuclear construction, and run up costs, with what Lewis sees as little concern for the long-range public interest.

Once, Lewis recalls, the editor of a now-defunct newspaper intervened to block construction of the Louisiana nuclear plant, producing an allegedly expert witness for a hearing. After lengthy discussion of the witness' qualifications, a hearing official disqualified him for lack of expertise.

The would-be witness walked out of the proceeding, "and that was the last we saw of him," Lewis says, noting that the delay involved added substantially to the plant's cost.

When such delays occur, Lewis explains, "inflation is working and capital costs are compounding over a longer period, and regulatory agencies keep developing new regulations that must be incorporated into the project."

It is ironic, Lewis comments, that U.S. nuclear construction companies "can take American technology and American-built equipment, build a plant in a country where they don't even speak the language, and do it in about half the time and at substantially lower costs than the same plant could be constructed in this country."

Needed regulatory reforms, he says, include adoption of the legal principle of *res adjudicata*—that "once a thing is settled, it's settled, and you can't raise the same objections in proceeding after proceeding."

In addition to taking the industry story public on the national level, Lewis has a major public relations project under way in his home city: America's Electric Energy Exhibit at the 1984 Louisiana World Exposition.

More than 11 million visitors are expected at the world's fair, which will run from May 12 to November 11, and Lewis hopes a large majority will visit the electric utility industry exhibit. It will be designed, he says, to show in an interesting way the need for public policy decisions that will ensure adequate energy supplies for future generations.

Electric utilities throughout the country, their suppliers and other associated companies will support the exhibit.

Lewis' role in the fair, which is to be held on an 82-acre site along the Mississippi, goes beyond his industry's plans, however. He is the fair's chairman, a volunteer assignment he took on in addition to many other civic endeavors in which he has been involved over the years. He explains:

"We have a saying in the electric utility business that you are wedded to your service area. Your company doesn't have the option of pulling up stakes and moving to greener pastures. As a result, we in the industry traditionally work hard for the economic

ating permits. The procedures would fully preserve safety and environmental safeguards while preventing opponents from blocking action by raising the same objections time after time, year after year.

**O**PPONENTS OF INDUSTRY projects have caused delays by raising specious, unfounded charges, Lewis says, and the result has been "horrendous, additional construction cost that must eventually be paid by consumers." He believes that regulators "have become gun-shy to the point that they want to give everybody a day in court—not only their day, but yours and mine, too—so the regulators will never be accused in any way of having denied anybody due process."

Middle South has two nuclear units in operation at an Arkansas generating station, with a maximum output of 1,694 megawatts between them.

Two more nuclear units, one in Mississippi and the other in Louisiana, are due to go into operation next year.

When all four are in operation, approximately 24 percent of Middle South's generating capacity will come from nuclear energy—whereas 12 percent of the nation's total generating capacity is nuclear.

Lewis reports that his company, in dealings with antinuclear forces, has "fared pretty well by comparison" with utilities in other parts of the country. But Middle South has not completely



welfare and improvement of the areas we are privileged to serve. We owe it to our companies, our employees and our stockholders."

He says his world's fair chairmanship—"a show biz kind of activity, one with a little pizzazz to it"—puts him through "a lot of trials and tribulations," but the fair is going to give a big boost to New Orleans.

Lewis had a precondition in taking the assignment—that there be permanent gains for the city. "It wouldn't be worth the effort just to attract a few million more visitors over six months," he says.

Gains will include completion of a major new exhibition center and several new hotels, Lewis notes, but the most significant result will be a revival of New Orleanians' interest in the reason for the birth of their city: the Mississippi River.

**T**HE FAIR'S THEME will be "The World of Rivers—Fresh Water as a Source of Life," and much of the activity will be related to that theme.

When the fair is over, Lewis says, the city will have a redeveloped riverfront area that will include recreational, retail, restaurant and other facilities, as well as some new commercial shipping facilities.

How does Lewis, who this year received a distinguished alumnus award from Tulane University, find time to handle his many business and civic responsibilities which include service on the U.S. Chamber of Commerce board of directors?

"I start early and work late," Lewis explains. "Somebody once told me that if you can't do it in eight hours, the job's too big for you. If that's true, I haven't found a job yet that's my size."

He does explain, however, that "I try not to get too involved in details that other people are responsible for. I believe in delegating responsibility and in giving sufficient authority."

"I won't tell you I practice that perfectly, but the only thing a leader in any sizable organization can do is to try to have the kind of people who can make things happen. Over time, this company has been able to attract and keep very capable people who are able to take a great hunk of responsibility and run with it."

One of those people, of course, is Floyd Lewis. Asked if he has ever thought during his 34 years with Middle South about leaving for new and different challenges, he says: "Not really. The assignments I have had right here have offered diverse challenges and satisfying rewards." □



To order reprints of this article, see page 65.

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# Your IRA: When To Contribute

By Gerald W. Padwe, C.P.A.

With the end of the year approaching, many people are considering last-minute strategies on 1983 taxes. Innumerable areas could be considered, but here are a few points you should bear in mind with respect to Individual Retirement Accounts.

**Start now.** Contributions to an IRA are deductible if made before the filing of the individual tax return for the year involved—in other words, no later than April 15, 1984, to get a 1983 deduction. But deductibility is only one of the benefits you get from establishing an IRA; probably more important, in the long run, is that earnings on the account are tax-free until withdrawal after retirement.

A tax strategy involving only the current deduction could well lead to deferring payment of the contribution until just before filing the return. That is generally an error. A financial strategy emphasizing the tax-free buildup of earnings would lead to making the earliest possible contribution to an IRA, rather than the latest.

Assume for purposes of comparison that two individuals, both age 25, begin working Jan. 1, 1984, and continue working for 40 years. One makes a full \$2,000 IRA contribution each January 1, the other defers the contribution until the following December 31. The approximate result, as they come toward the end of their last working year, is that the January 1 contributor has had an additional \$2,000 invested for that 40-year period. At an annual earnings rate of 10 percent—tax-free—the additional retirement fund built up from that additional contribution amounts to \$90,000 (or \$180,000 for a family with two working spouses).

Moral: If you are waiting until next April to make a 1983 IRA contribution—don't! Assuming cash is available, make your 1983 payment before De-



The growth of Individual Retirement Accounts has been explosive since Jan. 1, 1982, when Congress opened them to all wage earners. By next spring, it is estimated, deposits in IRAs will top \$100 billion.

cember 31. Then, early in January, make an additional contribution for 1984 and get the power of compound, tax-free earnings working for you to the maximum extent possible.

**Nonworking spouses.** Another interesting planning wrinkle affecting the Individual Retirement Account arises when only one spouse works. Tax rules permit deductible IRA contributions of up to \$2,250 in those circumstances—with, however, the requirement that no more than \$2,000 may be allocated to one spouse.

In other words, when the full \$2,250 is contributed, an IRA must be established for each of the spouses, and at least \$250 must be put in each spouse's account. When less than the maximum contribution is made, it may be allocated between the two accounts in any way desired, so long as neither spouse's IRA receives more than \$2,000 for the year involved.

Note, though, that the bulk of the contribution need not go to the working spouse; in fact, it may often be strategically advantageous for most of the contribution to be allocated to the nonworking spouse.

Demographics tell us that the nonworking spouse is, more often than not, the wife; further, wives tend to be younger than husbands. Since distributions from an IRA to its beneficiary must start no later than age 70½, amounts contributed to a wife's

IRA will likely accumulate tax-free for a longer period than those contributed on behalf of a husband. Thus, in a family with a nonworking wife, it may be smart to allocate the first \$2,000 of IRA payments to her.

**The price of filing early.** In spite of the best intentions in the world, you may find it impossible to make a 1983 IRA contribution until just before next April 15. If that is the case, do not make the mistake one corporate taxpayer made.

The corporation filed its return before the due date; it then requested an extension of time to file so it would have a longer period available to make its annual contribution to a profit sharing plan.

IRS ruled privately that the corporation could not obtain an automatic extension for filing its return because a return had already been filed—even though the request was made before the original due date for the return. The agency held, therefore, that the corporation could deduct only contributions made before the original due date.

If the request had been filed before the return, IRS would have allowed the extension for contributions—even if a return had been filed immediately after the request.

Although private IRS rulings have no precedential effect (and the result in this case is, we believe, questionable), the ruling provides insight into current IRS thinking.

Accordingly, individual calendar-year taxpayers are on notice that the early filing of a Form 1040 will cause IRS to challenge a later request for an automatic extension—an extension that could be useful for obtaining additional time in which to make an IRA contribution or various elections that must appear on a return filed before the due date.

Happy year-end tax planning. □

GERALD W. PADWE is national director-tax practice for Touche Ross & Co.

*Note: For Your Tax File is an information service for readers. See tax and legal advisers for guidance on all specific cases.*



# Strange Case of the SBA Computer Contract

Why is a job that is supposed to be done by a small private firm in the hands of a small public agency?

By Seth Kantor

**T**HE WAYS of the government contract can be mysterious, indeed. Witness the contract that the Small Business Administration last year awarded to an Arlington, Va., company, Executive Resource Associates. The award was worth several million dollars in federal funds, potentially, over a five-year period.

Now the SBA has taken the contract away, after deciding that Executive Resource was ineligible to have it. The company has been replaced with a federal agency, the U.S. Railway Association, though the work involved has nothing to do with railroads and, under SBA rules, the contract is supposed to go to a small business.

Involved in the case are several questions:

How small a business is Executive Resource, really? What exactly are its links to a very large business, a Japanese conglomerate? Why did the SBA, after deciding Executive Resource was ineligible, wait seven months to give the contract to someone else? And finally, why is there so much trouble with the SBA's computer software?

Answers may emerge from various preliminary government investigations now under way.

The contract is for management of the SBA's Procurement Automated Source System. The system, known as PASS, provides 74 federal departments and agencies, plus private contractors who sign up, with vital information on 90,000 small businesses that can be used as subcontractors on tens of thousands of federally funded job assignments.

Since its inception in 1977, PASS has



Small businessman Martin Beer protested after the Small Business Administration gave a contract to a rival firm. The other firm was ruled ineligible to keep the job, but the work did not go to Beer.

been a program that the SBA has set aside for operation by small businesses only. The original PASS contractor, Systems Architects, Inc., of Randolph, Mass., grew too large over the years to be eligible to continue the work, according to Robert A. Turnbull, associate deputy SBA administrator for resource management.

As a result, the SBA solicited 211 small businesses to bid for the cost-plus PASS contract last year. Executive Resource was the winner, with a low bid of \$673,948 for one year, and won the option to renew for four additional years.

However, after a year Executive Resource—which claimed a series of cost overruns—had been paid \$1,155,754 by the SBA. And “nobody here knows how much more that company may yet receive” before the contract finally is settled, an SBA spokesman says.

Gordon T. Yamada, founder and president of Executive Resource, is a former high-ranking Defense Department official. Yamada, whose office displays two samurai swords, symbols of Japan's warrior aristocracy, refuses to make any public comment about his company's business connections with Tokyo's Sanyo-Kokusaku Pulp Company, a multinational with more than \$1 billion in assets.

But SBA records dated Nov. 24, 1982 (two months after Executive Resource won the SBA contract) show that Yamada owned controlling interest in Wye Associates, a firm that in turn owned the largest block of stock in Aquafoods International. And Aquafoods is an affiliate of S-K Seafoods, a

wholly owned subsidiary of Sanyo-Kokusaku Pulp.

Sanyo-Kokusaku is an empire of paper mills, chemical plants and building material producers. It controls nine major subsidiaries in Japan, including an international trading company, plus 47 other subsidiaries and 40 associated companies.

A spokesman in Sanyo-Kokusaku's Seattle office says S-K Seafoods can be reached at a phone number that turns out to be identical to Executive Resource's.

Internal SBA documents obtained by NATION'S BUSINESS show that soon af-



ter Yamada's firm took over management of PASS on Oct. 1, 1982, SBA officials determined that the firm had connections with still another company—Genasys Systems, Inc., of Rockville, Md.—that made Executive Resource ineligible to operate the program as a small business.

Although Yamada claimed that Genasys was a subcontractor on the project, a written accord between Executive Resource and Genasys showed that a joint venture arrangement actually was involved, the SBA officials say.

Genasys and Executive Resource privately "agreed to share equally in all labor, services and invoiced revenue from this contract," the SBA's Size Appeals Board found last February 10.

Once the board ruled that a partnership existed between Yamada's firm and Genasys, which is not a small business, Executive Resource was officially in violation of the contract it had signed to operate PASS.

Why wasn't Executive Resource immediately dropped from the project instead of being allowed to continue for seven more months of cost overruns?

"Because," Turnbull replies, "if we nullified the contract right away there would have been no PASS system in operation, and the users would have been penalized."

Martin Beer, an unsuccessful bidder for the contract who filed a protest over its award to Executive Resource—a protest that led to the Size Appeals Board ruling—says the SBA's failure to immediately nullify the contract "is not defensible, especially if saving money for the taxpayer was any kind of object."

Beer is president of Information Consultants, Inc., a small business based in downtown Washington.

SBA records show that on March 10 Beer offered to run PASS as Executive Resource's subcontractor, at the low-bid rate. The SBA bucked the offer to Executive Resource, which rejected it.

Information Consultants had been one of eight finalists in contention for the PASS contract last year.

According to Delvin D. Dohse, chief of the SBA's contracts branch, Information Consultants finished second in competition to show technical competence to perform the contract but was the highest bidder at \$1.1 million (about the same amount Yamada's firm eventually was paid). SBA records show Yamada's firm finished fourth in the technical competition.

Last spring Beer and his attorney, David S. Cohen, obtained SBA records under the Freedom of Information Act.

As a result, Beer wrote SBA Administrator James C. Sanders in April that "some SBA personnel" had violated SBA rules "by refusing to terminate award of the PASS small business set-aside to Executive Resource."

Sanders did not reply, but Beer heard from Turnbull in May. Turnbull denied there had been irregularities inside the SBA but said the contract would be reopened for bids by small businesses so that a new PASS management award would go into effect October 1.

While waiting to hear from Sanders, Beer had hired Franklin R. Silbey, a

PHOTO: GARY KIEFER



Frank Silbey, veteran Washington investigator, runs an unusual consulting firm that was hired to spread word about the controversial computer contract.

veteran investigator for Senate and House committees who had started a consulting firm that specializes in helping businesses to head off unnecessary congressional probes into their activities and to protest contracts "unfairly awarded" to competitors.

**S**ILBEY BEGAN to get congressional investigators and others interested in Beer's case.

On June 23, the government's *Commerce Business Daily* carried an announcement that the SBA would issue requests for proposals by June 29, beginning the new round of competition. But between June 23 and June 29, the SBA changed its mind. No such requests ever were issued.

Turnbull says that he wanted to have the contract opened for competition but that he put together an in-house task force "to look at the problem, and it decided there was not enough time to evaluate new competitors and have a new PASS contract in operation by October 1."

Instead, the SBA unilaterally decided to put PASS into the hands of the U.S. Railway Association, an independent federal agency established 10 years ago to restructure and refinance bankrupt railroads under Conrail, the Consolidated Railroad Corporation.

The Reagan administration says the USRA's work is virtually finished—the agency is down from 300 employees to 40—and in September the White House deferred \$2 million of the USRA's \$3 million operating budget. That would have put the agency out of business by the end of 1983.

But with the PASS contract from the SBA—the contract is worth up to \$900,000 and good for one year, until Oct. 1, 1984—the USRA has enough money to keep its doors open.

At the SBA, Turnbull says he expects that a new request for proposals "will be on the streets" between April and June, 1984, so that a small business contractor can begin operating PASS next October 1.

Turnbull says the SBA expects to have "a whole new package of software" designed for PASS by another small business, Creative Associates, Inc., of Washington. He says he expects the software design contract to cost the SBA about \$200,000.

The contract is being "sole-sourced," says Turnbull, which means it is being issued without competitive bids.

Yamada says he is "shocked" by the SBA decision to spend \$200,000 on new software for PASS. "My firm developed software at our own expense for less than \$60,000, and the SBA has refused even to try it out," he says.

The software—the actual operating system of the computer program—has become a significant issue in the PASS contract.

Yamada says privately that Executive Resource's operating costs for PASS would not have risen had it not been for the software, which the company was forced to use under the contract. He calls the software "a pile of junk."

An investigation into the PASS program's reliability has been under way for months by the General Accounting Office, which investigates government activities for Congress. The probe was requested by Rep. Berkley W. Bedell (D-Iowa), chairman of a House Small Business subcommittee. Bedell, according to an aide, has been "concerned about the poor management of PASS for some time."

And the inspector general's office at the SBA has begun a probe into Executive Resource's management of PASS, asking the Defense Contract Audit Agency to examine contract records.

Finally, Senate Small Business Committee Chairman Lowell P. Weicker (R-Conn.) has been raising a series of questions at the SBA, asking particularly that the agency review Executive Resource's relationship with the Sanyo-Kokusaku Pulp Company. □





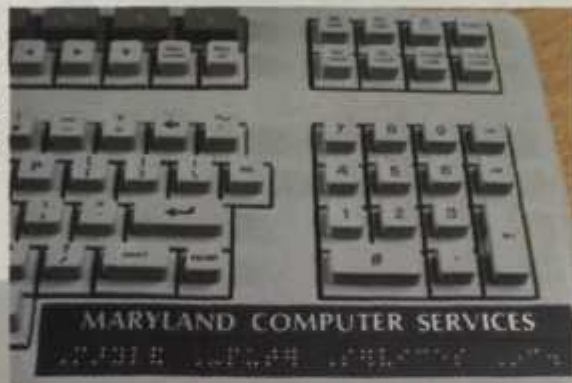
# Now Some Computers Have the Gift of Gab

They can wake you up (or keep you awake), they can read your mail to you, and they can warn you when something is going wrong.

By John M. Williams

Talking computers are a boon to blind workers like software designer Ted Henter of Maryland Computer Services, Inc. At right, one of the company's computer terminals is embossed in braille.

PHOTO: DAVID VALDEZ



**A** CHINESE restaurant's owner uses one to keep himself awake when he does tedious bookkeeping. An Atlanta businessman says one has boosted his office's productivity.

This praise is for talking computers—machines for which business people are finding an increasing number of uses. They are being programmed to chide owners for making payroll mis-

takes, cry out when dangerous situations arise, read electronic mail, proofread and even teach their owners how to use them. They have an advantage over bells or buzzers when they are used to give warnings, because they say what they are warning you about. For example, a computer in a nuclear power plant might shout, "Warning! The temperature of the pump is rising."

The restaurant owner, who has 94 people on his payroll, says he bought his talking computer to improve his record keeping. "In the past, my accounts were not updated as frequently as they are now," he says. "I found the bookwork tedious and often fell asleep while I was working. The speech keeps me awake and serves as a proofreader. I have saved money by not having someone stay after work with me and proofread."

In Atlanta, the businessman lauds his computer for freeing him from routine office duties. "For nearly a year my electronic mail has been read to me by my computer," he says. "This saves my two office assistants time and frees them up to do other chores. Since we acquired a voice synthesizer, our productivity has risen nearly 22 percent."

**T**ALKING COMPUTERS can cost from \$3,000 to \$11,000, or perhaps a little more, depending on what type of computer you buy and whether it has a built-in synthesizer or one that can be attached to the computer. Most computer salespeople can determine the proper computer, programs and speech synthesizer for a business owner after analyzing the firm's needs.

And with the computer to help, learning how to use it can be relatively simple. One computer consultant with seven offices in Washington state, California and Arizona bought three Apple II computers with "self-teaching" programs last year. "We saved ourselves thousands of dollars this way," he reports. "I learned how to use it in less than a day. We do most of our training through a talking computer. I have recommended it to other computer consultants in Los Angeles, San Francisco, Sacramento and San Diego."

Deane Blazie, president of Maryland Computer Services, Inc., a manufacturer and distributor of talking terminals and computers in Forest Hill, Md., says businesses are finding that talking computers "assist in controlling costs



and increasing productivity." The list of corporations using them includes Texas Instruments (also a leading manufacturer of such computers), IBM, Mobil Oil, Bank of America, International Telephone & Telegraph, American Telephone & Telegraph and the *Los Angeles Times*.

Physicians like Dr. Terry J. Pundiak, an internist in Easton, Pa., have also found talking computers quite useful. Pundiak attached a speech synthesizer to an Apple computer to read medical records aloud and to give lectures to his patients and others on the evils of smoking. (He found he had to keep the lectures down to about 20 or 30 minutes, though, or the audience began to lose interest.) Pundiak also connects his home computer to the hospital's computer and has information about cases read to him.

But Pundiak didn't have much luck with one aspect of the computer: programming it to check up on his staff while he was away. The staff got sick of hearing the computer's metallic voice saying, "It's now 10 o'clock. Have you followed my instructions?"

Thomas Schalk, senior vice president of consulting for Voice Control Systems, Inc., in Dallas, observes: "With managers spending between 75 and 80 percent of each working day communicating in one way or another and white-collar expenses consuming large and ever-increasing portions of a company's overall expenditures, it is crucial for them to receive the maximum benefit for their dollars. Talking computers help them achieve that benefit."

Businesses may also encounter special situations in which a talking computer can be particularly useful. When a person's eyes and hands are busy with some task, a talking computer can notice that something is wrong and specify what has to be done. When the employee is not always sitting in front of the computer or when blind or visually impaired people are employed as systems analysts, managers, programmers, claims adjusters, lawyers and accountants, talking computers can be valuable aids.

**T**ERRENCE FERGUSON, a blind program analyst for Harris Trust and Savings Bank in Chicago, says, "With my Information Thru Speech talking microprocessor I can do the same work as a sighted person. I can read programs, write them, design them and even proofread my own reports."

Manufacturers of talking computers, including IBM, Texas Instruments, Wang, Hewlett-Packard and Maryland Computer Services, Inc., have discovered a big market for their goods among the blind and visually impaired.

"Manufacturing and distributing talking computers is a growing busi-

ness, particularly as more and more blind and visually impaired people enter the job market," says J. Michael Mason, vice president of marketing for Maryland Computer Services, Inc. When the company was founded in 1977, it had sales of less than \$30,000, he says. This year, it expects sales of more than \$3 million.

Manufacturers are aware, however, that their technology may be perceived by some as a Hollywood gimmick from a science fiction movie. As a result, they have emphasized its affordability, quality and practicality.

PHOTO: TEXAS INSTRUMENTS



You can talk back to this "voice interactive" terminal made by Texas Instruments, a leader in the field.

Rating quality has proved difficult because of a lack of standards. Researchers have settled on two separate characteristics: intelligibility and the naturalness of the computer's speech. For a business, "quality" depends largely on how the machine will be used.

Intelligibility will be of prime importance if the computer reads your electronic mail. If you are a hotel owner and send your guests a wake-up call in the morning, it is more important that the voice sounds natural.

How much the computer will cost depends partly on how it forms sounds and stores them in its memory. The more versatile a talking computer's speech, the more expensive it is likely to be. But because of its flexibility, it may well prove economical.

Talking computers can store complete phrases, single words or individual speech sounds. The simplest and most straightforward technique is to store complete phrases that can be played back when needed. The speech will sound the most natural and the machine will cost less, but it also will be

less flexible. It will not be able to rearrange words within phrases into new phrases.

More complex talking computers can form words from the most basic units of sound, such as "th" and long and short vowels. The sounds can be either extracted from real human speech or produced electronically. But the speech sounds phonetic rather than natural.

The most common way to produce speech in this manner is through a Votrax VSB Synthesizer Board. The board produces sounds that are merged to form words and converted into an electronic signal by the synthesizer. The signal is sent to an amplifier and finally to a speaker.

**A**LTHOUGH TALKING computers are only now coming into widespread use in business, the technology to produce them is about 50 years old. During most of those years, it was confined to laboratories, where researchers tried to develop practical applications for it.

Telephone companies were among the first to tap its potential. For example, when you dial a disconnected number and get a recording telling you the new number, the voice you hear is synthesized. A computer has taken actual human speech and rearranged it to speak the number required.

Among the newest uses of synthesized speech for the telephone is IBM's Audio Distribution System, which lets employees store, automatically forward and collect messages over the phone. It works this way:

If John Doe is unable to reach Jane Smith and knows she will be back at 3 p.m., he can punch in a code over the phone to program the system to forward his message at that time. She will hear his voice, but it will be "digitized," or condensed by the computer to take up less storage space, according to IBM official Baxter Burke. "You have to have an awfully good ear to tell the difference between a digitized voice and a real voice," he adds.

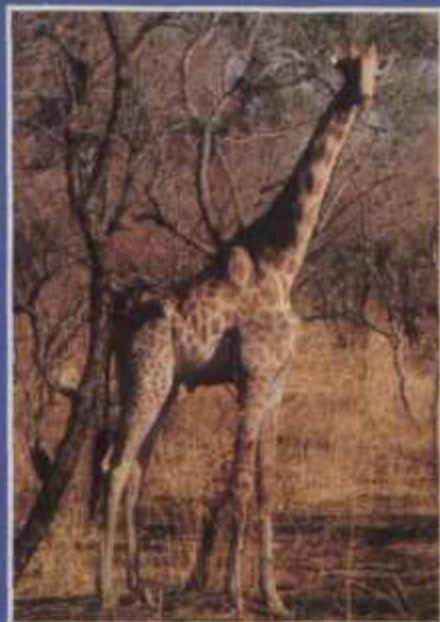
"ADS was designed to be cost-effective and productive," says an IBM manager in Bethesda, Md. "It is certainly paying off. There are many more uses for it and more will be developed as the need arises."

The full extent of talking computers' uses is limited only by the imagination. "Talking computers will become more commonly used as opposed to being a fad," predicts Schalk. "Eventually, they will be found in our homes, offices and automobiles and in more and more games. In fact, they will be found everywhere they can be useful." □

JOHN M. WILLIAMS is president of Technical Communications, Inc., in Sterling, Va. He writes about computer applications.



# SUDAN



President Gaafar Nimeiri



## Oil Will Fuel Sudan's Economy

**D**EEP IN THE SOUTHERN interior of Sudan, tall stands of green and yellow grasses stretch to the horizon, like an herbaceous carpet covering a vast swamp. Here, along the banks of the Bahr el Ghazal, a tributary of the White Nile, reside the Nuer people, who have survived through subsistence farming and cattle keeping, their ways unaltered through the ages.

Until recently, the industrialized world has had little impact on the Democratic Republic of the Sudan. But these days the Nuers are surrounded by trucks, bulldozers, helicopters and drilling rigs. In the Sudd, the world's largest inland marsh, bigger than the state of Indiana, seismic crews on amphibious buggies are gathering data on the geological subsurface. On arid, sunbaked plains, nomadic camel herds wander past teams of men grappling with tri-cone drill bits.

Today tribesmen, who just a few years ago had rarely operated machinery, are crack roustabouts, operators and foremen. Foreign energy companies have invested hundreds of millions of dollars here. Together they are drilling for—and finding—oil, a development that may bring profound changes in Sudan's fortunes.

The prospects for significant petroleum deposits are tantalizing. A dream could well come true in Sudan: new jobs and money to finance roads, modern agriculture, schools and defense needs.

Sudan is an immense nation, roughly one-third the size of the contiguous United States. It is also the largest country in Africa, its borders enveloping deserts, mountains, tropical rain forests, savannas and the almost boundless swamp.

On a continent with incredible overpopulation problems, Sudan, with only 22 million people, is underpopulated. Despite an ambitious three-year agricultural development program, the country's balance of trade deficit has continued to increase. Sudan's oil import payments—it uses about 30,000 barrels per day—rose from \$30 million in 1970 to \$440 million in 1981, thus consuming a large percentage of its foreign exchange earnings.

Sudan has an economic potential unmatched by perhaps any other undevel-



Major U.S. and European oil companies have been given vast concessions in Sudan, Africa's largest nation, to explore for and develop oil deposits.

oped country in the world. Agriculture is Sudan's current economic focus. Approximately 20 million cultivated acres provide a livelihood for 70 percent of the country's labor force. The Sudanese government estimates, however, that more than 220 million acres could be put into production, comparable to the opening of the American West.

The nation's livestock numbers about 55 million head, a figure that could be tripled if properly exploited. With thousands of lakes and rivers and 500 miles of coastline along the Red Sea, Sudan can develop a profitable fishing industry. With manpower and massive economic investments, this country could become

a Middle Eastern breadbasket.

Petroleum could help Sudan begin paying its own way on such projects. Developing the resource, however, is a formidable task, if only because of the huge amounts of land and great distances involved. Several firms are making the effort.

Total, the French petroleum company, has concessions to explore the interior and offshore Red Sea. As for U.S. companies, Sunmark and Texas Eastern are searching for oil and natural gas. By far the most important investor in Sudan's oil potential—and the furthest along—is Standard Oil Company of California, through its Chevron Overseas Petroleum, Inc., and Chevron Oil Company of Sudan affiliates.

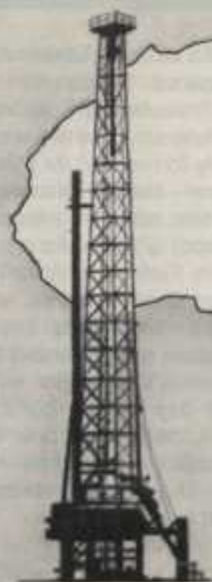
**I**N THE PAST EIGHT YEARS, Chevron has invested some \$750 million in Sudan. After geophysical surveys and seismic prospecting, which started in 1975, the company launched exploratory drilling two years later. Chevron has since drilled 44 exploratory wells in Sudan's interior and has made 17 discoveries. Ten of these are concentrated in two areas now being commercially developed: near Unity, about 450 miles south of the capital city of Khartoum, and near Heglig, 40 miles from Unity.

The exploration pace has quickened in the last couple of years, says Al Martini, president of Chevron Overseas Petroleum. Chevron drilling has led to seven discoveries in 1983. Development and delineation drilling has expanded estimates on known fields.

"We believe our reserves in Sudan now total about 300 million barrels," he says. "Although we have done extensive geophysical work over much of the area, only drilling can establish the ultimate potential. We are now accelerating a long-term and very expensive drilling program. We hope it will establish reserves several times larger than those discovered thus far."

Finding the oil is one thing—doing something with it is an entirely different matter. In 1982 Chevron's discoveries began to appear large enough for the country to perhaps become a net exporter of petroleum and thus earn vital for-





SUDAN



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The Past  
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## Africa's Potential Cornucopia

Sudan has one of the most favorable land-to-population ratios in the world, with about 13 acres of cultivable area per person, compared with the world average of only 3 acres.

Agriculture is the dominant sector of the national economy, contributing nearly 40 percent of the gross domestic product and more than 90 percent of export earnings. Of a total land area of 600 million acres, some 220 million are classified as agricultural land, 200 million as forests and 180 million as uncultivable land. Of this total only 17 million are estimated to be under cultivation.

Modern irrigation using pumps began at the turn of the century, replacing traditional flood irrigation and bucket and water-wheel techniques. Over the last 50 years, Sudan has developed over 4 million acres of irrigated land, which accounts for 20 percent of the cultivated area. The Sudanese use fairly modern production technology to produce such valuable crops as cotton, wheat, sugar cane, groundnuts, fruits and vegetables. According to World Bank predictions, the 4 million acres could be

increased with proper investments and better management to 5 million acres using existing allocations of Nile River water. Another 2 million acres could be irrigated with ground water and from new conservation methods, and an additional 1 million could be irrigated with the introduction of more efficient water management. Thus, the total irrigated area could be doubled to 8 million acres.

Over the past 20 years, large-scale mechanized rainfed farming, based principally on cultivation of sorghum, has been developed on 5.6 million acres of the Savannah Clay Plains. The sector comprises nearly two thirds of the total cultivated area producing sorghum, millet, sesame and groundnuts and depends almost entirely on human labor and hand tools with very little modern machinery. Considerable employment has been generated, albeit of a seasonal basis, and exports have contributed to foreign exchange earnings.

The government's aim is to obtain the benefits of horizontal participation by the private sector and livestock integration.

## SUDAN

eign exchange. As a result, Chevron, the International Finance Corporation, the Arab Petroleum Investment Corporation and the Sudanese government—through the newly formed White Nile Petroleum Company—started plans on a new project. In the next two years this group will construct a 900-mile pipeline between the Unity Field and Nimeiri Terminal on the Red Sea. The plan, which includes building a new terminal south of Port Sudan, will cost an estimated \$900 million. The pipeline's capacity will be 50,000 barrels a day initially, but it can easily be expanded to more than 100,000. What makes it unusual—considering its size—is that the system will have not one but two pipelines.

**M**OST OF THE OIL in Sudan's interior is of good quality, but it is waxy, too viscous to flow through a pipe on its own. Consequently, the second pipeline will bring refined products, purchased on the world market, into the Unity area, where they will be blended with the crude, enabling the mix to flow freely.

This arrangement has another purpose. Currently Sudan distributes petroleum products to its interior on rail tank-cars and trucks. About half of what travels through the light oil product pipeline will be siphoned off for domestic use. The pipeline will be a major addition to Sudan's infrastructure.

The parallel pipelines will run through marshlands and arid regions to the Red Sea. Protecting Sudan's environment is considered vital. "The very existence of the Sudanese people is tied to the land," says Dick Kreutzen, Chevron's general manager of environmental affairs. There is definitely an urgency to complete the pipeline, but it will not be done at the expense of nature.

Sudan is increasingly becoming a geopolitical focal point. It has great strategic significance since it has become an important American ally.

However, Sudan will need massive assistance before it can prosper. Conditions are improving, but with the immense geographical scale of the country, any significant development project is of necessity enormous.

The Jonglei Canal, a 360-kilometer-long ditch that will divert part of the White Nile from the Sudd, is one such example. Much of this water is lost through evaporation and seepage. The diversion will help irrigate some of the great plains of Sudan, which are bone-dry half the year. It will also help improve communications and transportation in isolated regions.

Sudan's planners are counting on similarly large agricultural projects, with a mind towards turning the country into

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the "breadbasket of the Arab world." And in this class of mega-development is the oil pipeline, a combination of Western technology and Sudanese resources.

Beyond the direct revenues from petroleum exports, the pipeline project will have a major positive impact on Sudan's economy.

New and improved port facilities, a new satellite communication system, aviation and marine navigation aids and other infrastructure improvements are being installed.

Even more important, the pipeline project will stimulate local business and create training and job opportunities for many Sudanese. Such new skills and businesses will help the country's economy grow.

Agriculture, in the long run, will remain the staple of Sudan's economy. Farming the boundless, now fallow tracts is a key to prosperity, but such progress requires tremendous investments.

The potential revenues from oil production, which will permit the government to boost agricultural production and exports, will allow this African country to join the ranks of strongly developing nations. □

## Acknowledgements

This special section was produced with the guidance of His Excellency Omar Saleh Eissa, ambassador to the United States of the Sudan (right), and Mamoun O. Medani, the Sudanese Embassy's economic counselor and head of its economic office. Valuable material was furnished by Standard Oil Company of California.



## Photo Credits

Photos for this section were provided by the Sudanese Embassy, Sudan's Ministry of Internal Affairs (Information and Culture), Sudan's Tourism and Hotels Corporation and Standard Oil Company of California.

# Kenana: a great new name in the sugar world.

The Kenana Sugar estate is the largest irrigated sugar plantation in Africa, and one of the biggest in the world.

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Work started on the 29 km long main canal in January, 1976. By January, 1981, it had been completed and four pumping stations had been constructed, equipped and commissioned. In addition a 270 km network of primary canals had been dug—the whole system being capable of pumping and distributing 500,000 gallons of White Nile water every minute.

84,000 feddans (40,000 hectares) of sa-



annah has now been cultivated and planted with cane; and one of the largest integrated sugar factories in the world is in production.

This mighty technological, agricultural and engineering achievement has been brought about by close co-operation between the Sudan Government and a number of other Arab countries, and by harnessing a wide range of specialized skills and experience from Europe, Japan and the U.S.A.

Over 520,000 tons of refined sugar was produced as of start of operations in February 1980 through April 1983. At full production, the factory processes 17,000 tons of cane into 1,700 tons of refined white sugar every day of the crushing season, achieving a total annual production of 330,000 tons in 1985-86.

It is an achievement of which the Sudanese people, and the world's sugar industry, can feel justly proud.

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# Those Healing Breaks

Americans increasingly are taking midwinter vacations. Here are options for the business executive.

By Bob Gatty

**L**IKE MANY OF US, Maureen Reynolds and her husband, Nick Brixius, burn both ends of the candle. She is vice president of LSW, Inc., a Washington firm that provides data management services for members of Congress and other clients. He is a federal government executive. Twelve- and 18-hour days are not unusual as they scramble to build their careers.

Eventually, though, they have to get away. Maureen and Nick know when it is time for a vacation. They know, too, that when the vacation is over, they will do better on the job.

That would not surprise the Falls Management Institute in Raleigh, N.C., which says there is much evidence that people are more productive and creative after an extended vacation.

Or the American Medical Association, which says that relaxation is "essential to health and continued psychological renewal."

This year Maureen and Nick were tired and had little energy for vacation planning. The solution? A cruise.

"I didn't want to make any decisions," Maureen recalls. "I just wanted to go and be taken care of."

With a week's notice and the help of a travel agency, the couple was booked on a Norwegian Caribbean Lines cruise to the Yucatan Peninsula on Mexico's east coast. The cost: \$1,399 each, including air fare from Washington to Miami, where they were picked up in a limousine and taken to their ship.

"All we had to do was write a check, pack some clothes and fall into the airplane," says Maureen. "It was wonderful."

Last year 64 percent of American adults took vacations that involved travel, according to the Travel Industry Association of America. On average, the vacations were 6.3 nights long and covered 860 miles back and forth.

Dick Knot, president of the American Society of Travel Agents, says people today—especially executives—are taking more and shorter vacations than in the past. Thus, trips tend to be

spread throughout the seasons rather than concentrated in the summer.

"Historically, the senior people seemed to go for three- to four-week all-inclusive vacations," Knot says. "Now it seems to be more one-week shots. Maybe it's the Caribbean, then a visit to relatives, then maybe Europe."

Those shorter vacations may not really be the best solution to the stress that today's business executive often faces. Mike Bell, a Falls Management Institute consultant who specializes in business planning and productivity, notes that most visits to a physician are for stress-related illnesses. He says it takes more than a quickie break to provide the benefits of a longer vacation.

"With the winter approaching, consider rewarding yourself with a vacation of two weeks or longer," he tells executives. "It won't help only you. It will give your staff a chance to prove their worth by letting them take care of your company while you are gone."

**W**INTER IS NOT the traditional vacation season for many people, but increasing numbers of Americans are taking a midwinter break. The U.S. Travel Data Center, research arm of the Travel Industry Association, says 36 percent of adults surveyed in August planned to take a trip between September, 1983, and March, 1984.

There are many interesting, relaxing and enjoyable things to do during the winter months. And there are good deals out there. Increased airline competition caused by deregulation is one reason for that.

Also, the strong dollar has made travel to Europe especially attractive this year, Knot points out. Off-season prices add to Europe's attraction in winter, he says.

At White Bear Travel in White Bear Lake, near St. Paul in Minnesota, winter bookings to Europe are up substantially over 1982, reports the company's president, Mary Patterson.

Patterson says that from Minneapolis on Northwest Orient Airlines, travel-



PHOTO BILL ROSS—WEST LIGHT

ers can go to Amsterdam or London for \$499, including hotel for four nights. There are plenty of other packages, some sponsored by airlines, others by wholesale tour operators or individual travel agents.

Knot advises business travelers not to ignore such tours because of the notion that the trip will be structured along a specific schedule or spent with a specific group of people.

"All you're really doing is accepting a package deal in which they take you there, drop you off and leave you on your own," he says. "The only thing you can't control is the departure and return dates of the trip."

Packages can save the vacationer a bundle. "It costs you double to do it on your own," Knot says. He points out that the package concept "applies to any destination—the Caribbean, Hawaii, wherever. You go for half rate."

However, advance planning is needed to take advantage of such trips, says Teresa Bell Payton, president of T-Bell Travel, Inc., in Washington. Thus, it is often difficult for business people to capitalize on them.

Payton says there is another option—travel programs that require payment in advance, usually 21 days, but are not part of a tour package, so individual schedules can be accommodated. These programs can save the traveler up to 40 percent, she says. And refunds are provided, with only a modest penalty.

There's another advantage—air fare and room rates are guaranteed. "Rip-offs happen when you don't prepay for your room," cautions Payton. "Taxes,





TO ERIC ARNESEN—WEST LIGHT



TO EVERETT JOHNSON—POLLO

Midwinter vacations can take many forms. Millions of Americans are lured by the snow and crisp air of the ski slopes, but others choose to escape from the cold and relax beside a pool in Mexico or some other warm country. Off-season European trips have become especially attractive thanks to the strength of the U.S. dollar, and package-priced cruises to the Caribbean are drawing an increasing number of young professionals.



PHOTO: BOB WATERMAN—WEST LIGHT

energy surcharges and gratuities that you didn't expect are often added. All of a sudden, an \$80 per night room can turn out to be \$150."

Payton says many young professionals have been opting for cruises in the past two years. "Norwegian Caribbean Lines, Cunard and Princess Cruises are all benefiting," she says.

Kathy Sudeikis, travel consultant for Ask Mr. Foster Travel Service in Kansas City, Mo., agrees. Her agency sponsors "cruise nights." The public is invited to stop by and meet representatives of the cruise lines.

Sudeikis' agency books cruises from Miami all over the Caribbean or from Los Angeles down the Mexican coast. The Mexican trip costs about \$1,100 per week per person. That may sound expensive, "but it's all-inclusive," Sudeikis explains.

**P**ERHAPS YOU want a midwinter break, with brisk winds and snow and winter sports. Last winter Americans made 46.9 million visits to this country's ski areas. This year ski manufacturers, retailers and resort operators have developed package plans to attract even more.

The industry has a "More People on Skis" program designed to introduce the sport to the uninitiated. For \$10, you get complete rental equipment, an introductory ski lesson and a lift ticket to beginner's slopes at the participating ski area of your choice. Ski retailers are the best source of detailed information.

Here is a small sample of what ski areas are offering this winter:

Snowshoe Resort in West Virginia has a "fun pass" that gives you lodging, all lifts, pool and other athletic facilities, shuttle bus service to condos and free entry to nine private clubs. Prices vary with accommodations, number in party and length of stay.

At Mount Snow Resort in Vermont, packages that include air fare, a rental car, lift tickets, lodging, dinners and breakfasts are offered. For five days of skiing, the cost from Philadelphia runs \$510 to \$579 per person, and from Chicago, \$634 to \$703. Accommodations can also be arranged at a country inn with gourmet meals and in-room fireplaces or in a cook-in condo.

In Colorado, Keystone Resort has management seminars for business people to fit into their skiing activities, providing an opportunity for a tax write-off. Tapes of each day's class can be obtained for playback on closed-circuit TV. Keystone arranges direct auto transportation from Denver's Stapleton Airport, eliminating need for car rental. Nonskiers can ice-skate, take sleigh rides, go shopping or snowmobiling, play racket ball, swim in the pool or relax in a sauna or hot tub.

For the more adventurous, Range Tours in Denver offers hut-to-hut skiing between the resorts of Aspen and Vail. You cross-country ski along a trail with an experienced guide. The group rate for five days and four nights is \$390 per person including meals, guide, lodging, sleeping bags, and pickup and return. You bring skis or rent them.

If you are a warm weather enthusiast, you have many options, too.

White Bear Travel's Mary Patterson says her agency spends much time interviewing its clients to understand their needs. "On the average, it takes us two months to plan the perfect R&R for the busy executive who comes to us," she says.

**W**HERE ARE SOME interesting places she sends her customers? The Third Turtle Inn on Provo Island, about 250 miles off Florida, was once a DuPont estate and now is an exclusive getaway spot—there are only nine rooms. The cost is \$130 per night, including meals. Air fare from Minneapolis is about \$600.

Barbuda in the Caribbean, another resort island, can be had for \$250 per day, including room, food, drinks and activities such as snorkeling and sailing. And Patterson says she has booked a number of villas in Jamaica at about \$1,100 per week.

Special airline-sponsored tours are available for Hawaii. Four airlines have joined together to work with Globus-Gateway to offer package travel to the South Pacific, including French Polynesia, New Zealand and Australia.

And of course there are many well-known golf- and tennis-oriented resorts—Hilton Head, Pinehurst, Pebble Beach and Boca Raton Resort and Country Club, for example.

Talk to your travel agent, then decide what type of midwinter break to take.

If you take it because of stress, you will probably be glad you did. So, no doubt, will the people who work with you and for you. □



# Speeding Up Economic Forecasting

What's in store for the economy? Ask the computer.

**W**HEN Senate Finance Committee Chairman Bob Dole (R-Kans.) and other congressional leaders recently proposed \$100 billion in tax increases over three years, businesses needed quick answers to a number of questions.

Among them:

- What effect would the proposed 5 percent energy tax have on prices?
- How would profits be affected by a tax on gross revenues?
- To what degree would a surcharge on personal income taxes affect consumer spending?

And, when Labor Department statistics showed record employment this fall, business organizations that keep a close watch on Washington needed to translate that information into deficit reduction terms.

Prompt answers to such fiscal policy questions are being obtained more and more through the use of desk-top computers by private-sector analysts who need to keep up with, and act on, fast-moving developments in the capital.

At the U.S. Chamber of Commerce, for example, economists are using recently installed Apple desk-top personal computers to analyze federal taxing and spending policies, to communicate with more than 18,000 key Chamber members in congressional districts across the nation and to prepare annual economic forecasts.

"The flexibility and versatility of the Apple computer enables us to serve our members better and communicate more efficiently with Congress," says Richard Rahn, a Chamber vice president and the organization's chief economist.

All six regional Chamber offices are now hooked up via telephone to computers in Washington. This enables policy specialists, who used to rely on telecopiers, to communicate faster than before with field coordinators. They, in turn, alert key Chamber members in the 435 congressional districts about issues important to business, like the threat of higher telephone costs or proposals to continue natural gas controls that are due to expire.

This nationwide network of Chamber members can be counted on to give representatives and senators in Washington the grass-roots business point of view.

"With the political season just ahead, we will get a tremendous amount of

use out of our Apples," says Virginia Browning, Chamber field operations administrator. She says that computers are being used to store voting records and other information on members of Congress and their opponents that can help Chamber members decide whom to vote for next November.

In economic research, computers are taking over many tasks that formerly were drudgery.

"It used to take hours and more than 100 calculations to determine the federal budget effects of changing assumptions about interest rates and inflation," says Kenneth Simonson, a Chamber expert on the budget. "That's a lot of pencil pushing."

**T**HANKS TO A data base containing information about the thousands of federal spending programs, supplied by the government's Office of Management and Budget, Simonson is able to employ his time more creatively. "Now I can make a dozen simulations involving different assumptions and choose the most preferred outcome," he says.

Ronald Utt, the Chamber's deputy chief economist, can use his desk-top computer to make changes in the commercially available econometric models that forecast how the economy is going to perform. "We can alter employment,

growth rates, investment and other assumptions about the future and come up with our own views of the world much faster than before," Utt says.

"There is an initial investment in time to get acquainted with the Apple, like any computer system," says Graciela Ortiz, a Chamber economist, who prepares sector-by-sector analyses of the economy and writes forecasts using her computer as a word processor. But she likes the fact that there are many software programs that enable Apple computers to communicate with other systems using different computer languages and logic.

Besides saving paper, labor, time and money, computers offer the promise of doing things once considered impossible.

"Someday, we will be able to communicate with all 200,000 Chamber members, in a sort of universal hookup," says field operations administrator Browning.

Chief economist Rahn has nothing but praise for the new hardware and growing number of software programs. "Next year, our ability to suggest alternative federal spending policies will be enormously simplified by having personal computers," he says.

"I don't know how we could do it without them." □

PHOTO: JAMES WALSH

1	2	3	4	5	6	7
12 Education	\$71.40	\$72.28	\$72.18	\$71.88	\$72.25	\$72.25
13 Health	\$65.80	\$74.40	\$73.50	\$74.50	\$74.50	\$74.50
14 Income Security	\$67.18	\$74.25	\$73.50	\$74.50	\$74.50	\$74.50
15 Social Security	\$135.00	\$154.18	\$153.50	\$154.50	\$154.50	\$154.50
16 Veterans	\$22.00	\$24.00	\$24.50	\$25.00	\$25.00	\$25.00
17 Justice	\$4.70	\$4.70	\$5.18	\$5.18	\$5.18	\$5.18
18 General Govt.	\$4.00	\$4.70	\$5.00	\$5.00	\$5.00	\$5.00
19 Gen. Fiscal Rest.	\$6.50	\$6.40	\$6.40	\$7.15	\$7.15	\$7.15
20 Interest	\$22.70	\$24.70	\$24.40	\$25.00	\$25.00	\$25.00
21 Uninsured	\$8.00	\$8.00	\$8.50	\$8.50	\$8.50	\$8.50
22 Offsetting Receipts	(\$38.30)	(\$13.20)	(\$13.10)	(\$12.85)	(\$12.85)	(\$12.85)
Total Spending	\$555.50	\$575.50	\$575.50	\$575.50	\$575.50	\$575.50
27 Total Revenue						
28 Deficit						

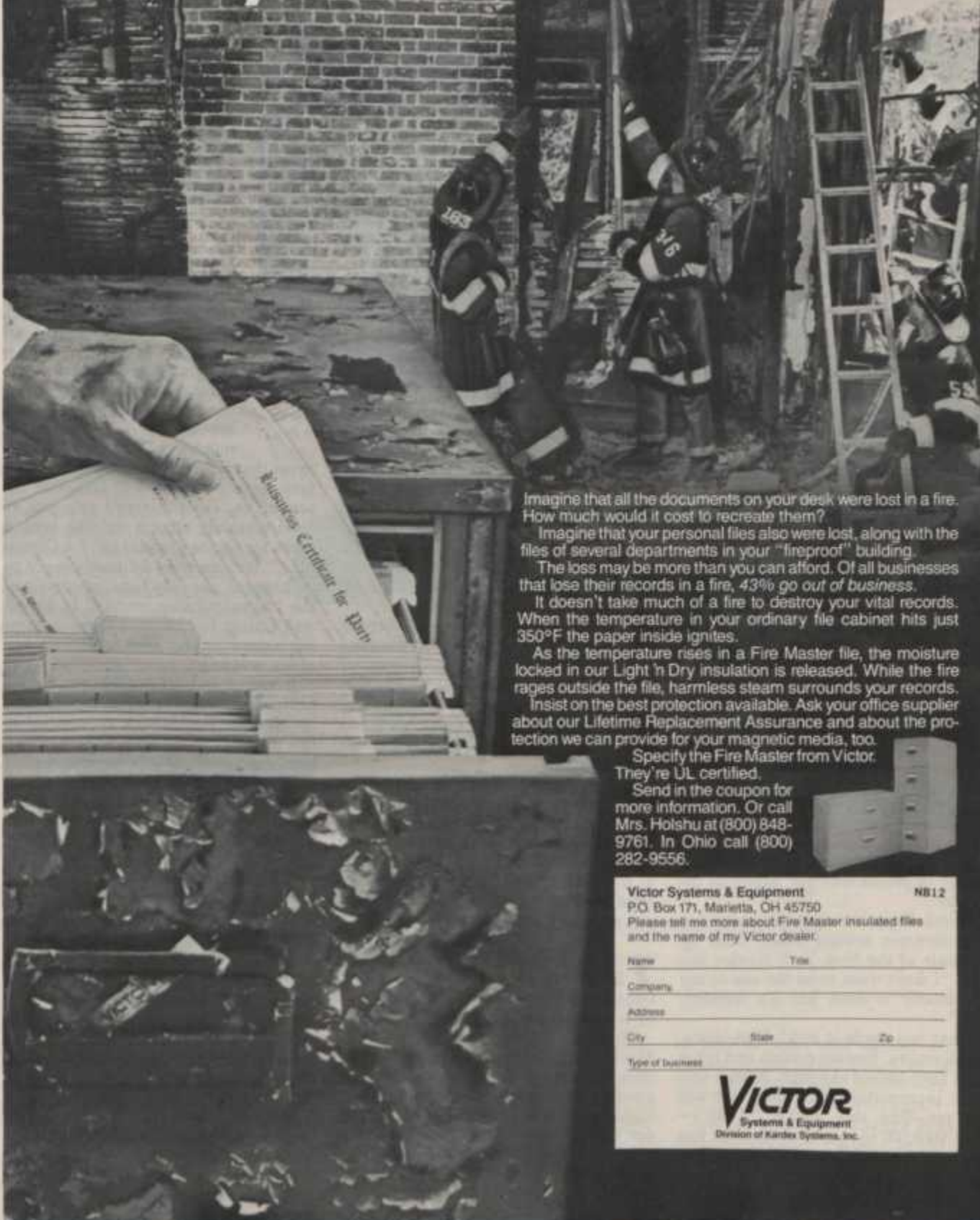
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Richard Rahn, chief economist for the U.S. Chamber of Commerce, uses a computer to study the federal budget.





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# Investing in a Play: Your Ticket?

By Ray Brady

**F**IRST, set the stage: You are being lionized at a glittering party, in a penthouse high above Manhattan. When you ask for a drink, it is brought by a famous Broadway producer. There is a piano playing in the background, and a famous musical comedy star is singing. Every so often she smiles—at you!

But then comes the time to pay the price of admission to this theatrical wonderland. That same smiling producer stands up in front of you and other potential backers (or "angels," as they are called in the trade) and makes his pitch: You have heard the songs, and now all that is needed is the money to stage what could become one of Broadway's all-time smash hits.

The producer—whether he is making his pitch at the penthouse party or over the phone to a business owner in Kansas—can recite some numbers as glittering as a Broadway marquee. For the 1981-82 theatrical season alone, "Sugar Babies" racked up profits of \$743,468. The lucky investors who bought a \$16,000 unit in "Annie" got a return of about \$160,000.

It is all enough to make the stock market sound like an investment for sluggards. But as one businessman who invests in Broadway (and prefers anonymity) puts it: "Do you remember the old line, 'There's a broken heart for every light on Broadway'? Well, there is—but a lot of those broken hearts belong to people who put money in the theater."

Joseph Papp, one of the most innovative showmen around today, sums up the state of the New York theater this way: "I don't want to be the one to say the theater is dead, but it's certainly sick."

What has made it sick? High costs. Union wages, theater rentals and other costs have soared sky-high. Even a dramatic presentation with one actor and one set—like this year's "Kean"—costs \$500,000 to mount. And when you get into a musical extravaganza like



"A Chorus Line"—a hit show with no high-priced stars—was a bonanza for its "angels," or backers. But many shows fail.

"Cats" or "La Cage aux Folles," the production cost rises to a staggering \$5 million. As costs go up, so do ticket prices, slowly but inexorably cutting down the size of audiences. Last year, in fact, attendance in New York dropped, with tickets to many musicals costing as much as \$45 each.

Even so, veteran show people believe that ticket prices are bound to continue rising. Bernard Jacobs, president of Broadway's highly successful Shubert chain of theaters, puts it in terms any business person can understand: "You have to raise prices to reflect the cost of production."

So, caught between rising costs and a slowly dwindling audience, producers are turning more and more to what they consider the tried and the true: big, glitzy musicals or revivals of hits of the past. If you decide to invest in a Broadway show, you will probably find you are being asked to back a musical.

**T**HE ODDS on cashing in on a winner? Some say they are around 50-50. Others say your chance of making money is around one in five.

There is, though, one compensation: Most theatrical financing is done through partnerships, formed among groups of people. This device has a highly practical, bottom-line value. Under the law, the money you lose in a partnership can be deducted from your income as an ordinary business operating loss.

So if you invest, say, \$10,000 in a play

and you lose it, all is not lost. If you are in the 50 percent tax bracket, Uncle Sam is picking up the tab for half of your loss.

Just as with a new issue in the stock market, you get a prospectus for a Broadway show, spelling out what the producer hopes to accomplish (and spend). If you are investing in a New York production and it is one of the larger ones, the law requires the producer to tell how well his recent shows have done for their backers.

It can pay to read the prospectus carefully. Look, for example, at how many people are in the cast and at the number of sets and similar

items that can run up costs. If the show features a star, that will help it at the box office, but the star's pay will almost certainly stretch out the time it takes for you to get paid off. "A Chorus Line," for example, did handsomely by its backers, not only because it became the longest-running musical in Broadway history but because there were no big names in the cast to sop up box office revenues.

A new trend—if spelled out in the prospectus—may help you recoup your investment. Recently, a growing number of creative people—writers, directors, even some stars—have agreed to defer part or all of their royalties from a show until it goes into the black and backers thus begin to get a return. "Night, Mother" won a Pulitzer Prize, but it got on the boards only because author Marsha Norman agreed to waive much of her royalty payment.

Our businessman-investor advises that would-be angels should also read the script of a production before they put up money. "You can't tell just by reading a script whether a play will be a hit or not," he says, but he adds that "once you've read a few scripts, you may save yourself some money, because you begin to sense what might turn into a real turkey."

So invest, if you must. But remember the old Broadway adage about playwriting, an adage that also applies to those who invest in the playwright's works: "You may make a killing at it—but you can't make a living." □

RAY BRADY is the business correspondent for CBS News.



A COMMON COMPLAINT about executives is that they are paid too much for doing too little. But executive pay levels can be justified with two principal arguments: First, salary size usually is determined by the competitive market and by company size. Second, incentives—bonuses—are linked to company performance; when companies do well, the people running them get paid well.

In the five years ending in 1982, however, the second argument lost some of its steam. Those years were characterized overall by high rates of inflation and marginally acceptable company results. Executives, though, still received what appeared to be generous pay increases each year. Companies were not performing well, but executives were getting paid well.

That changed dramatically in 1983. This year, executive pay increases clearly were linked to company performance, and for the majority of American industry, still recovering from last year's recession, performance was poor. Thus, salary increases for executives averaged 7.4 percent in 1983, compared with 10.9 last year.

This is the first time in five years that average increases of less than 10 percent have been found in Sibson & Company's annual *Executive Compensation Study* of 1,000 companies with sales ranging from \$10 million to \$30 billion.

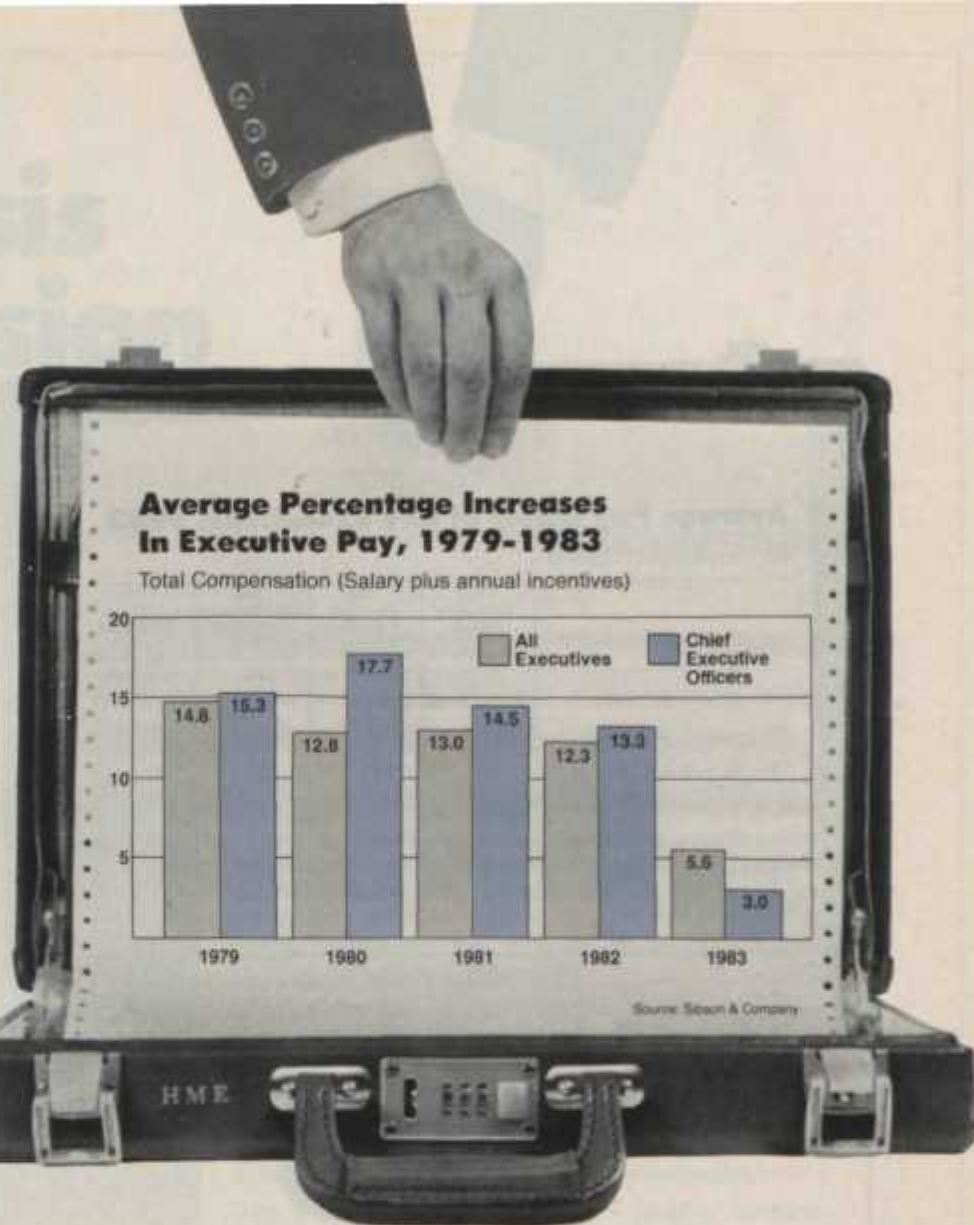
Our findings concerning annual incentives paint an even better picture of the relationship between pay and performance. Incentives, calculated as a percentage of salary, are usually linked to some measure of performance, such as an increase in company profits or the return on equity. As a rule, the size of a bonus reflects the previous year's results. Thus, bonuses paid in 1983 were for 1982 performance.

In 1982 profits for the 500 largest industrial companies were down 27.1 percent. Annual bonuses also declined. This resulted in an average total compensation increase (salary plus annual incentive) for executives of 5.6 percent, compared with 12.3 percent in 1982.

The decline in bonuses hit chief executive officers and other top corporate management much harder than executives as a group. CEOs received total pay increases of 3 percent in 1983, compared with 13.3 percent last year. Division and group executives fared better, an indication that results for many groups and divisions of companies were better than for companies as a whole.

Because of the decline in bonuses, most executives actually received fewer dollars in 1983 than in 1982.

Here is an example of how the decline in bonuses might have affected



## Recovery Is on the Way In Executive Paychecks

Poor 1982 performance shrank most bonuses this year. But prospects for 1984 are brightening as the economy recovers.

By Alan Johnson

the total pay of a hypothetical executive earning \$80,000 a year:

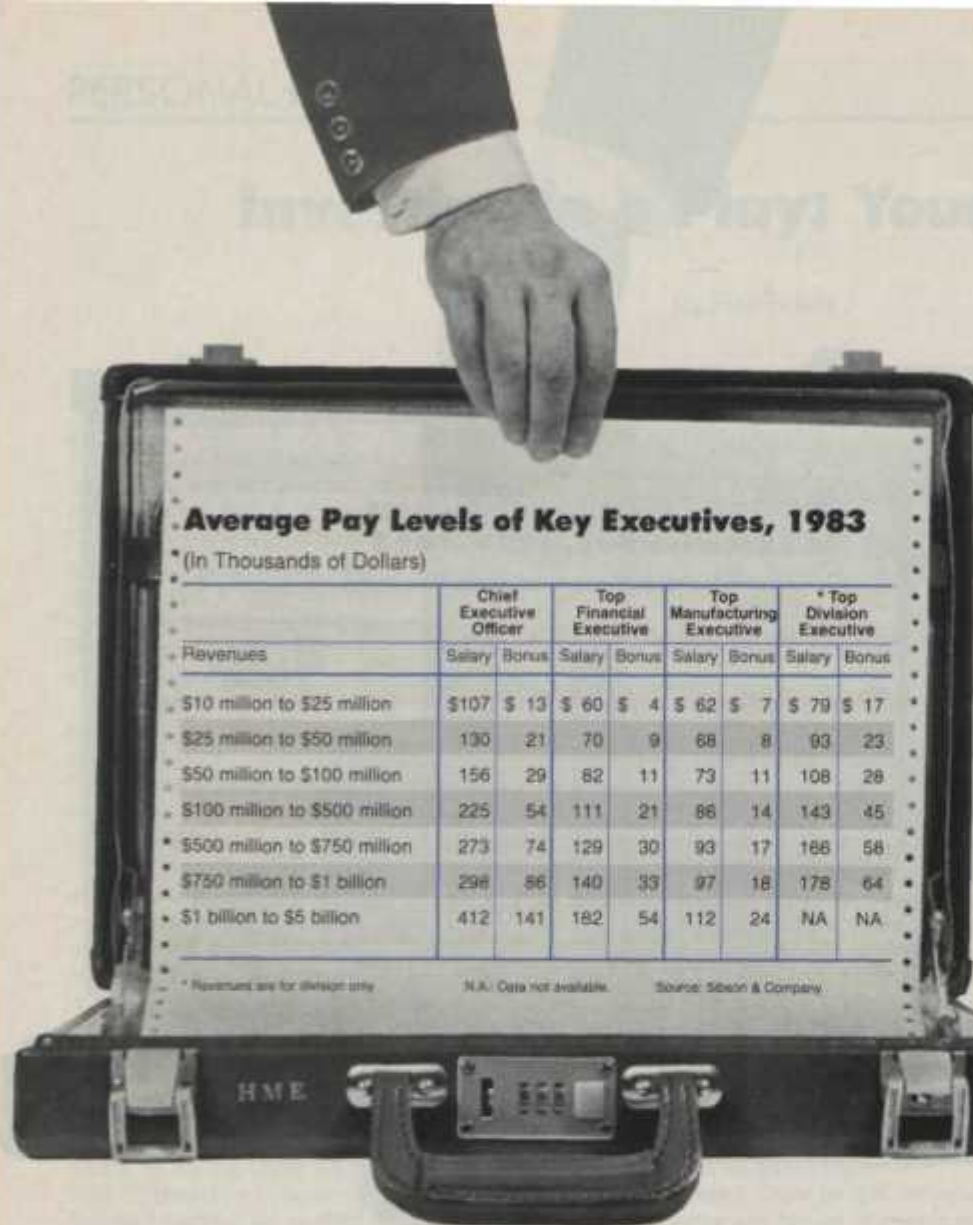
Assume that he is given a bonus equal to 50 percent of his salary if he reaches his target goals. Thus, if he did, he would receive a total of \$120,000. In 1982 this executive may have been credited with earning 80 percent of his target bonus for 1981 performance or \$32,000, receiving \$112,000 for the year.

In 1983 he may have earned only 20 percent of his target bonus, or \$8,000, thus bringing home \$88,000—21 percent less than his 1982 earnings.

Another significant change in executive compensation appears to have occurred in 1983. Companies no longer believe they must give executives pay increases merely to offset inflation.

In previous years, salary increases





## Average Pay Levels of Key Executives, 1983

(In Thousands of Dollars)

Revenues	Chief Executive Officer		Top Financial Executive		Top Manufacturing Executive		* Top Division Executive	
	Salary	Bonus	Salary	Bonus	Salary	Bonus	Salary	Bonus
\$10 million to \$25 million	\$107	\$ 13	\$ 60	\$ 4	\$ 62	\$ 7	\$ 79	\$ 17
\$25 million to \$50 million	130	21	70	9	68	8	93	23
\$50 million to \$100 million	156	29	82	11	73	11	108	28
\$100 million to \$500 million	225	54	111	21	86	14	143	45
\$500 million to \$750 million	273	74	129	30	93	17	186	58
\$750 million to \$1 billion	296	86	140	33	97	18	178	64
\$1 billion to \$5 billion	412	141	182	54	112	24	NA	NA

\* Revenues are for division only.

N.A.: Data not available.

Source: Sibson & Company.

## New Pay Vehicle: Junior Stock

A new method of compensating management in a tax-favorable manner—junior stock—has attracted a considerable amount of attention this year.

Its greatest appeal has been to emerging companies, where both the risks and rewards are high. It is, for example, gaining acceptance as a compensation vehicle by high tech firms in California's "Silicon Valley."

Junior stock describes a class of stock whose voting rights are reduced compared with those of common or preferred.

Here is a simplified explanation of how the junior stock approach might work:

The junior stock is assigned a lower value than common shares because of its restricted rights. (This

valuation is usually made with the assistance of an independent financial adviser.) Executives acquire the junior shares and are given the right to convert them to common at a specified ratio, conditioned on the executives' achieving certain company goals.

An executive who exercises the right to convert will receive common shares tax-free. No taxes need be paid until the shares are sold, when any gains realized will qualify for the capital gains tax rate, a maximum of 20 percent. (The company will receive no tax deduction on the gain.)

There is some uncertainty over legal and accounting aspects of junior stock. Companies considering a junior stock program should proceed carefully.

were justified with the argument that executives deserved a real earnings gain (the difference between inflation and the percent increase in pay). But in 1983, inflation as measured by the consumer price index is expected to be less than 5 percent.

Moreover, with profits down, companies are anxious to control compensation costs. Our survey results indicate that company profitability is the single most important factor in determining how much to increase salaries.

**S**OME COMPANIES are treating the compensation of their executives as a cost of doing business much like the cost of raw materials or energy. The amount of money spent for each position is being closely scrutinized to determine whether it is truly justified. "I don't care what the competition is paying," one manager at a large industrial company said recently. "I can't afford to pay it."

The fear of losing executive talent also appears to have diminished, possibly because the recession has cost so many managers their jobs. "That position is only worth so much money to our organization," another human resources manager confided recently. "If I have to lose someone because I won't pay more, that's fine with me."

A recent Sibson survey of the 1984 salary plans of companies confirms a trend toward controlling compensation costs for employees in general through hiring freezes, wage freezes, reducing the number of individuals eligible to receive increases and extending the amount of time between increases. In varying degrees, all of these measures are painful both to employees and to companies, which suffer when employee morale drops.

The use of these methods will continue in 1984, although to a lesser extent than previously. Our survey indicates, however, that linking compensation to a measure of performance appears to be increasing.

For most top executives, incentives, or bonuses, are a normal element of their pay package. This is not true for other employees, including many in the executive ranks, but more than 20 percent of the companies taking part in Sibson's salary planning survey say they plan to extend their use of incentive programs, specifically as a means of holding down compensation costs.

Many of these companies are either installing an incentive plan for the first time, increasing the number of employees who are eligible for a bonus or increasing the size of the bonus in relation to salary.

What makes these programs so effective is that if the individual meets his goals, the company also benefits. If the



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goals are not achieved, the individual earns less and the company pays less.

If bonuses are too small, employees will not be motivated to achieve the program objectives. This is true at all levels of the organization, from CEO on down.

In recent years companies have focused intently on the design of incentive pay programs, but they have not stepped back to see whether the relationship among all elements of the pay package is appropriate.

For example, a CEO might receive a \$300,000 base salary plus benefits, with the rest of his pay in the form of incentives, which are at risk. He will earn about \$690,000 if he meets all his goals. If he meets only half his goals, his pay will total \$540,000. If he exceeds his goals by 50 percent, his pay will total \$840,000. There is only a 22 percent difference between either of the latter figures and the target earnings of \$690,000.

What this means is that performance can go up or down dramatically, but pay will not move that much. Small differences in performance—say, 10 or 20 percent—will make almost no difference in pay, so the CEO has little incentive to reach or surpass his goals.

**T**HE OUTLOOK for 1984 includes some good news and some bad news.

Company performance improved significantly during 1983, and executives should see those results reflected in their bonus awards next year.

Bonus increases could be large enough to raise the average total compensation for executives by 15 percent next year.

The bad news is the effect these rewards to executives may have on other employees. As mentioned earlier, many companies have placed increasing emphasis on controlling compensation costs, often through painful methods. Employees who have seen their pay reduced or frozen, or the time between increases extended, may react unfavorably to high award levels for executives.

Companies that determine their compensation programs solely through survey results may want to reconsider this approach. Companies must be sensitive to the attitudes of all employees, not just executives. Targets for award programs should be realistic and competitive, not a mechanical extrapolation of survey data. □

ALAN JOHNSON is a senior executive compensation consultant with Sibson & Company, a consulting firm specializing in compensation and human resource management. This article is based on findings from Sibson & Company's 19th annual Executive Compensation Study.



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PHOTO: GARY KIEPER



Boxed checks are sent to the 12 Federal Reserve banks' main offices and 48 check processing centers—this one is at Baltimore—to be sorted, bundled and shipped to banks throughout the country.



## Why Some Banks Are Fed Up With the Fed

Handling checks is big business. Has the Federal Reserve unfairly scooped up too much of it?

By Mary-Margaret Wantuck

**T**HE SHORT, BUSY LIFE of a check: An out-of-state customer at Ace Hardware pays his bill with a check. The store bookkeeper deposits it at the local bank with the rest of the day's receipts. A bank teller credits the store's account with the amount of the check. But the check is merely a piece of paper without value to Ace Hardware's bank until it reaches the out-of-state bank.

Because the check is from out of state and because Ace Hardware's bank is small, the bank needs help in collecting the funds due. A courier carries the check, and thousands of others, by truck to an intermediary bank. There the checks are sorted, bundled for different destinations and flown or trucked either to another large private bank or to a Federal Reserve Bank in the general vicinity of the out-of-state bank. If Ace Hardware's customer has

sufficient funds in his account, that bank makes payment—which goes back through the chain to Ace Hardware's bank. The whole process generally takes two days.

Checks pass through many hands after they are deposited. If the funds are to be collected at the institution where the check was deposited—as is the case for about 30 percent of all checks—or if the paying bank is in the same town, then collection is relatively easy. But when the paying bank is far away, collection can be complicated.

According to Michael Braun, vice president of marketing with First Wisconsin Bank of Milwaukee, "99 percent of the 13,000-plus banks in the country do not have the wherewithal—staff or financial resources—to go through the process of getting deposited checks to paying banks all across the country."

So, enter the Federal Reserve Board and its 12 reserve banks. Enter, also, the correspondent banks—banks' banks, large depository institutions that provide smaller banks not only with check processing but with such services as loan participations, bank stock loans, return item processing and wire transfers. There are approximately 300 correspondent banks nationwide.

**A**N American Bankers Association survey of correspondent bankers shows that they rate check processing as the most important correspondent service. But, in their view, "its profitability is slipping significantly." The reason: the newly deregulated financial environment, in which the Fed has emerged as the dominant competitor. The 12 Fed banks account for the processing of as much as 40 percent of all checks written. (This year alone, 35 billion checks are expected to be written.)

Says Braun: "When a correspondent competes for a share of a check market, it is not competing with a bank in Tucson but with a Federal Reserve bank. There is no single correspondent bank that accounts for more than 1 percent, maybe 1½ percent, of the remaining 60 percent share. It's a David and Goliath relationship."

Just why is the Federal Reserve competing with private banks? The answer lies with the 1980 Depository Institutions Deregulation and Monetary Control Act. Before that law took effect in 1981, the Fed provided payment services like check processing free to its thousands of member banks, which implicitly paid for the service with noninterest-bearing reserves. Now it must provide explicitly priced services not just to member banks but also to a potential customer base of nonmember banks, thrifts and credit unions, totaling some 40,000 institutions.

The correspondent banks are not particularly pleased by this turn of events.

James E. Smith, president of Charles E. Walker Associates, a Washington consulting firm, represents the Nation-



al Payments System Coalition, a group of 47 major correspondent banks, and he explains their dissatisfaction:

"Before 1980 you had the Fed handling run-of-the-mill clearance on large volumes of low-dollar checks in which one-day versus two-day availability didn't create any serious problems for the banks. The banks naturally gravitated to the Fed because it was a no-fee processor. The correspondents concentrated on high-dollar items, giving their customers premium availability, express treatment. It was not unlike the Postal Service versus Federal Express." But now the Fed is aggressively muscling into the correspondents' territory.

The private banks label the Fed's pricing scheduling "predatory." They charge that the Fed is not recouping its costs through proper pricing. Although the law requires the Fed to build into its prices a private sector adjustment factor (the capital costs and taxes that would be paid if the services were performed by private firms) to bridge the competitive gap, there is a wide disparity between the Fed's resulting price increase of 16 percent and what the correspondents believe the increase should be—between 30 and 40 percent.

The Fed has increased its check collection fees by another 11 percent, as of December 1. As a result, its 1984 net revenues from check processing are expected to be \$4 million.

"Pricing and costing is an art, not a science," admits Eugene M. Tangney, executive vice president of the First National Bank of Boston, "but if a private company tried to price its services the way the Fed does, it just wouldn't survive."

The National Payments System Coalition says that 18 correspondent banks it studied charge a weighted average of 3.4 cents per item; the Fed charges 2 cents.

"On the surface, this means that the Fed is 60 percent more efficient than the private sector," Smith admits. "They may be modestly more efficient because of scale, but 60 percent is hard to swallow, because they don't do anything different from anyone else. When you have a \$1 billion-plus budget, it doesn't take much in the way of imprecision to make substantial misallocations."

E. Gerald Corrigan, president of the Federal Reserve Bank of Minneapolis and chairman of the Fed's pricing policy committee, denies that "Fed prices have been systematically and significantly understated." He does acknowledge that the Fed has had problems with its pricing mechanism and is still fine-tuning it, but he "firmly disagrees

that the overall process is fundamentally flawed."

Besides pricing, the correspondents have other gripes regarding what they can or cannot do compared with the Fed. One: They are not allowed to set up interstate branches to pick up checks, whereas the Fed has a nationwide network of offices.

Most correspondents agree that the Fed cannot be excluded from check processing, but they want its activities curtailed.

Tangney of the First National Bank of Boston says that "the Fed must stay

PHOTO: DAVID WALDICE



James Smith, representing private banks, says the Fed is competing unfairly.

in the net settlement business as the national bookkeeper for the country's banks, and it must continue to handle low-dollar items that must go tremendous distances for clearance."

Gerald Berenstein, vice president and head of check services at United Bank of Denver, believes that the Fed's role should extend only as far as being the "bank of last resort, handling those checks that are not heavy contributors to float or are not high-dollar or don't carry any impact on the monetary policy that the Fed is trying to implement."

**B**UT THE Fed's expanded role has won support, too. Credit unions, for example, say that since the Fed extended its services to all financial entities, their check transaction costs have dropped and check clearances have been speeded up. Even the American Bankers Association admits that the wider participation of the Fed banks in check processing has led to "significant benefits."

Most legislators who have studied the matter agree that the Fed must stay in. As Rep. Douglas Barnard (D-Ga.) states, "to withdraw would be disastrous." But other lawmakers, like Sen. William Proxmire (D-Wis.), want to see the Fed's operations split up, to eliminate the potential conflicts between its roles as a regulator of banks and a competitor with them. Proxmire favors setting up a corporation to handle payment services; it would be headed by directors appointed by the 12 reserve bank presidents.

Smith, the Washington consultant, believes that the only way to settle the issue of the Fed's appropriate role may be to create not just one but several corporations that would "raise capital and look for revenues from service fees," just like their private competitors.

Says the Fed's Corrigan: "It's an idea that's intriguing but premature." The Fed has been engaged in pricing services only for two years, he notes, and needs more time to adapt. "If I were a correspondent," he says, "I wouldn't be too crazy about such a spinoff. The kind of restraint the Fed has practiced so far in its pricing could just go out the window."

But Smith predicts that if "Congress doesn't do something over the next year or so or if the Fed does not come to grips with its pricing strategies," private banks will get out of check processing.

Many banks are already charging at or even below cost because of the Fed, according to Tangney, as their profit margins are squeezed and they watch the Fed banks market their services aggressively.

Corrigan thinks there is still hope for a "nonconfrontational cooperative partnership" between the Fed and the correspondents, but Smith says Congress must be the final arbiter—the Fed just "can't sit down and make a deal."

Inaction on Congress' part could mean a Fed monopoly in check processing as correspondent banks are forced to drop out of the market. "This would be fine if they were inefficient," Braun says. "But it would be unfortunate if they did so because they were operating under a different set of rules."

"We are a business, the Fed is not. If we don't provide services that are valuable, that please our customers and that don't lose money, we will fail. The Fed will never do that. It's in a no-lose situation. It could give up some of its business to more efficient suppliers if it priced its services at cost, but it would still be there."

As Smith sums it up: "We are looking to the Fed to be the lodestar, not the lodestone, of check processing." □



# A Rousing Vote for Computers

Readers use them and like them  
—at work and at home.

**D**O YOU HAVE a small computer at your place of business? If so, you are more likely to have a computer at home than is the individual who does not have one at work.

If your place of business has a small computer, you more likely than not use it yourself. And if you have a computer either at home or at work, you are probably quite satisfied with it.

These are some of the findings of a reader survey of computer use that appeared in the September issue of *NATION'S BUSINESS*. The survey queried readers on their present and anticipated use of small computers, and more than 1,000 people—63 percent of them in top management positions—replied.

Nearly 73 percent of the respondents indicated they had a microcomputer or a minicomputer at their places of business, and 17 percent of those with computers said they had more than one.

Reflecting the large number of computers on the market, the respondents listed 65 different brands in use in the workplace. "In addition, there were a number of different models of each brand cited by the respondents," comments Sharon P. Warden, *NATION'S BUSINESS* research manager, who directed the study.

Nevertheless, 71.9 percent of the office computers listed came from only three companies: IBM (28.3 percent), Apple (23.6 percent) and Radio Shack (20.0 percent). The IBM PC, listed by 15.2 percent, was the most popular of the small computers used in business.

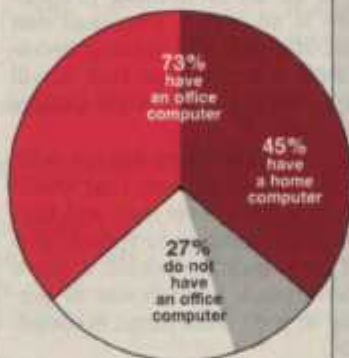
**O**NE FOURTH of the respondents indicated they were presidents or chief executive officers of their firms. Others in the top management category included vice presidents, financial officers, general managers and owners or partners. The rest of the respondents were in administration, marketing and sales, the professions, engineering, and insurance and finance.

Median age was 43, and median household income was \$53,007. Ninety percent of the respondents were male, and 68.6 percent had graduated from college or had advanced degrees.

The survey showed that 50.3 percent of those who have small computers in their businesses also have computers at home, whereas only 31.6 percent of those who do not have small office computers have home computers.

Seventy-four percent of those with computers at work said they personally use the systems, and 55 percent also have home computers. Only 36 percent of those whose office computers are run by someone else have computers at home.

Of the total sample, 45.2 percent reported having home computers, with 24



brands represented. Apple, with a 27 percent share of the home models, was the most popular, followed by Radio Shack (16.8 percent), Texas Instruments (15.5 percent) and Commodore (11.5 percent). Atari and Timex/Sinclair tied for fifth place with 7.1 percent, followed by IBM (6.6 percent) and Osborne (3.9 percent).

Sixty-seven percent of the office computer group and 69 percent of the home computer group reported being very satisfied with their systems. Only around 2 percent of either group reported being not at all satisfied.

Of the office group, 62.6 percent indicated they plan to upgrade their software or hardware within the coming year, and 82.5 percent anticipate upgrading within five years.

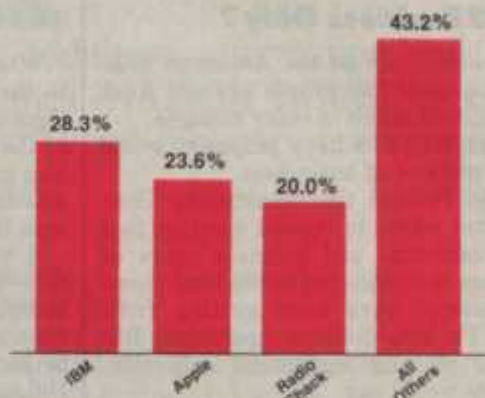
Of those who quoted a price, the average expected expenditure for such upgrading was \$12,479.

Other findings:

- 64K was the most common memory capacity cited for both office and home computers. ("K" refers to kilobytes. There are 1,024 bytes—characters, such as letters or numerals—in a

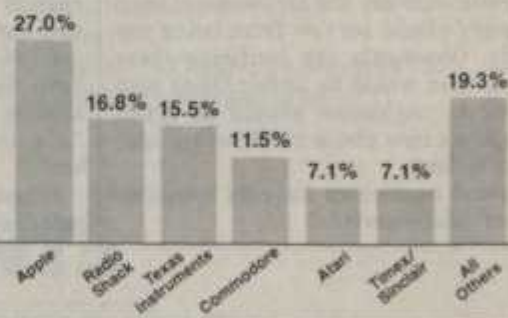
## Office computer brands

(Multiple response — = 100%)



## Home computer brands

(Multiple response — = 100%)



kilobyte.) Of the business machines, 256K was the next most common memory capacity; for home computers, 16K was second.

- Of the respondents with computers, 90.7 percent owned their business computers (8.5 percent were leased), and 98.7 percent owned their home computers.

- BASIC was the language used by 74 percent of the business computers. (Respondents were not asked about the language of their home computers, but Warden notes that the most popular home computers use BASIC.)

In summing up the study, Warden says:

"There is a direct relationship between having or using a computer at work and having one at home." □



# Where I Stand

## 1. Phone Fees For Business Only?

The breakup of the American Telephone and Telegraph system next month will result in many changes.

One that has been proposed would hurt millions of businesses.

The Federal Communications Commission wants to impose monthly fees on residential and business users of phones to replace payments local phone companies have been getting from AT&T's long-distance operation. But under pending legislation, only businesses would pay.

A firm would be nicked for \$6 a month per line (the relatively few firms with just one line would be exempt). Thus the annual tab for having three lines, say, would be \$216 (larger companies, of course, would pay more). And fees would rise in later years. There also would be surcharges on long-distance operations.

Proponents say the levies would keep ordinary phone service from being too costly. Opponents say confining them to business would be unfair. They also say state regulators should be given time to set new phone rates before anything is done.

Should businesses have to subsidize others' phone service?

## 2. New Tool To Cut U.S. Spending?

When Congress sends a spending bill to the White House for a President's signature, he may dislike some aspects of the measure but feel that other factors outweigh them. If so, it often is a matter of deciding to take the good with the bad.

A veto is an all or nothing proposition—there is no way a President can accept part of a bill. And vetoing necessary legislation in the hope that it will be recast in improved form on Capitol Hill can be risky.

Result: Bills have been loaded with pet projects, costing billions, that would not have made it on their own and that have added substantially to federal deficits. And now, another result: a move for a constitutional amendment to permit vetoing of individual items in spending bills.

Some in Congress protest that such a change would mean a dangerous loss of turf for the legislative branch. But it is pointed out that governors in 43 states have line-item veto power. And, one senator says, at the federal level now, "it's the taxpayers who are losing turf."

Should a President have power to veto line items in spending bills?

## 3. Truer Picture Of the Budget?

Many Americans do not realize that a big chunk of government outlays never shows up in the federal budget and therefore does not figure in calculations of the nearly perennial deficit.

During fiscal 1983 the government and government-sponsored organizations made \$182.8 billion in private sector loans and guaranteed another \$85.8 billion. This off-budget lending has ballooned a phenomenal 387 percent in seven years.

A key factor is that the loans are in great demand. Borrowers, in effect, get interest rates that are held down by government subsidy.

Bills now before Congress aim at setting limits on federal lending. Two bills would require that funds provided for many of the loan programs go through the annual budget process. Other bills would create a formal budget for all federal credit activity.

Opponents say the proposals would disturb lending that the economy needs. Proponents argue that the economy needs less government spending—and less competition with business for funds in the credit markets.

Should firmer controls be imposed on the amount of federal lending?

**You can now respond quickly to this monthly poll on major business issues by using the attached postage-paid card.**

## Verdicts on Gender Gap, Auto Making, Lawsuit Issues

The nays had it twice and the ayes once in the responses to the Where I Stand questions asked in October: Should gender be ruled out in setting insurance rates and benefits? Should Congress pass domestic content legislation? Should the Equal Access to Justice Act be extended? Almost 2,000 readers took part in the poll, whose results will go to appropriate government decision makers.

On the first question, involving legislation that would retroactively end sex-based differences in life, health, auto and other insurance, as well as pensions, 23 percent of respondents voted yes, 69.5 percent voted no, and 7.5 percent were undecided.

Only 8 percent voted yes on the second question—in sharp contrast to action last month in the House of Representatives, where a 219-199 vote favored requiring substantial use of American parts and labor in foreign cars sold here. Voting no were 88.5 percent of NATION'S BUSINESS respondents, and 3.5 percent were undecided.

The third question drew a response of 89.2 percent in favor of extending a law, due to expire next October, under which a small firm can collect legal fees if it contests a federal legal or administrative action against it and the action is held to be unreasonable. Voting no were 6.7 percent, and 4.1 percent were undecided.



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## STRATEGIES FOR SUCCESS

### His Inspiration: A \$32 Bad Check

In 1965 Irwin Pentel was burned by a bad check at his family's corner grocery in Minneapolis. It was a personal check for \$32, drawn on a local bank, and he cashed it for a woman he did not know. When it bounced, he tried to recover. He learned that the woman had a history of bad checks and accounts that banks had closed, but—to Pentel's amazement—the bank that had opened the account knew nothing of her record.

There ought to be a way to help banks avoid opening accounts for such people, Pentel thought. And in that thought lay the makings of a business, a "new account verification service" that Pentel calls ChexSystems. Today 13,000 banks in 40 states use the service, and Pentel, 52, says he hopes to cover all 50 states in a couple of years.

ChexSystems did not take shape overnight, however. After his experience with the bounced check, Pentel began talking to bankers. He learned that even though it cost a bank or savings and loan \$85 to \$125 to open an account and another \$10 or \$11 to handle every returned check, the institutions lacked

any quick, systematic exchange of information to protect themselves.

Recognizing that computers were the coming thing, Pentel sold the store in the late 1960s and took a job in a computer plant. He started as a product control expeditor. "That's a gofer," he says. "I was a good gofer. I went for things. But I could make things happen."

In two months he was scheduling production, then directing purchases of parts so everything came together at the same time. Then he got into labor forecasting and cost analysis.

But the idea of creating an account verification service never left his mind. He read books on computers, on the law, on banking. He read everything he could find about bad checks.

Finally, in April, 1971, he went to the Minnesota Bankers Association and made a 45-minute presentation. The association agreed to endorse his service. Truman Jefferson, the executive vice president, told him later, "We get about two requests every week from people asking us to support their schemes. You were the first one who had done his homework. You were ready."

Pentel's plan was for a central file, available by phone to any participating institution, of known bad-check passers



Using computers, Irwin Pentel can help banks identify a bad risk before they approve a checking account application.

and fraud artists. Banks would report new cases to the file at once. When anyone applied for a new account, bank clerks could get a reading in minutes from the file, while the applicant was waiting, before any blank checks were issued.

Pentel put an office together, designed marketing materials, hired telephone operators and started calling on banks, credit unions and savings and

### Bringing Life Back To Old Buildings

Susan Johnson is proof that the bootstrap ethic is alive and well.

The 35-year-old Manhattanite, whose thriving G.S.M. Construction Corporation specializes in gutting and rehabilitating old residential buildings, is making a mark in contracting through hard work and an enviable knack for pinpointing economic opportunity.

Johnson is cashing in on a vigorous market for building restoration in New York City, where the demand for housing is pressing the supply harder than at any time since World War II. Her most recent coup was a half-million-dollar contract for a basement-to-rafters overhaul of a string of 90-year-old brownstones along Harlem's historic Stryvers Row. The assignment appears to signal a happy end to the young company's passage from near-insolvency to financial stability.

Prospects were less assured in the fall of 1980 when Johnson, a former

airline ticket agent, launched G.S.M. from her West Side apartment with \$2,500 in severance pay and a part-time crew of four. (She had parted ways with the airline when she was asked to transfer to another city.)

Ever since her childhood days of tree-house building in Piermont, N.Y., Johnson had been intrigued with the idea of making a living as an independent contractor. Now she knew she could count on getting excellent technical advice from her grandfather, a carpenter, and her father-in-law, a mason.

A tip from a business adviser helped her land G.S.M.'s first contract, a painting and decorating job at the Federal Plaza worksite in Lower Manhattan. But the following year was a lean one: only three assignments, choked cash flow and a nagging lack of visibility in a fiercely competitive industry.

Undaunted, Johnson enrolled in a training program for minority contractors at a suburban college. She checked trade bulletins that announce contracting assignments open to competitive bidding. A member of SCORE, a nation-

al advisory service for small business owners, showed her how to prepare estimates, negotiate with suppliers and draw up a formal business plan.

But undercapitalization—shortage of ready money for building materials, wages, insurance and performance bonds—proved tougher to overcome. G.S.M. did not begin to solve its cash flow problems, Johnson recalls, until it took a hand in New York City's campaign against an epidemic of arson in the city's thousands of abandoned buildings.

In the spring of 1982, Johnson became one of nearly 50 minority contractors who have sealed 2,100 of the city's most arson-prone structures in a program cosponsored by the city and the American Insurance Association. The program's aim: to protect the buildings from arsonists and vandals and possibly preserve them for restoration by sealing them with sheet steel, plywood and concrete blocks.

G.S.M. has so far closed off 53 derelict brownstones under contracts totaling more than \$76,000. Because its up-





PHOTO: NANCY BLUMET

loans. He remortgaged some property, took out a loan, pledged his savings and got \$35,000 together. He let banks use the service free until he had 75 percent of the banks in an area signed up.

He knew the service was working the day a man whose account had been closed by a downtown bank in Minneapolis because of his bad checks showed up at a suburban bank in Anoka, Minn., 25 miles away. The bank called the service, made the "hit"—learned that the man had a bad record—and refused him. An hour later, he was in Big Lake, 40 miles

away, and got the same treatment. At 12:30 p.m. he tried to open an account in St. Cloud, 78 miles from downtown, and failed again. That was the last he was heard from.

"We deal in prevention rather than apprehension," says Pentel. "We want to get there before the bank issues that initial order of blank checks."

Two of Pentel's five children are among ChexSystem's 78 employees. The company now has IBM System 38 computers storing duplicate information in Minneapolis and Dallas. Toll-free calls from anywhere in the country take 15 to 22 seconds to produce a clearance or a "hit." Calls have increased from 195,000 a month last January to 275,000 in September, with 5.5 percent of the calls producing bad-record identification.

Pentel says he is successful because of three things: "I was lucky, I worked hard, and I had the right idea at the right time."

His advice to young entrepreneurs with ideas: "Avoid getting into something that sounds good if hard practicality says there isn't enough need for it so people will pay for it. Services are the thing. They're not capital-intensive. But make sure you have some fall-back

capital. It always costs a lot more than you think to start up, and if you have to scratch for money, you'll wind up being a minority stockholder."

—Harry Bacas

## A Smart Cookie's Smart Cookies

After your next Chinese dinner, break open some cookies and read the hard-hitting truth:

"You will buy a talking parrot. It will testify in court against you."

"You have already realized your full potential. It's downhill from here on in."

"Look forward to love and marriage, but not with the same person."

A little more vinegar than you expected? These prophecies come from Misfortune Cookies, the brainchild of an ex-advertising account supervisor, Maureen Healy, 26. She is betting on the notion that people are bored with such humdrum prognostications as "No man can be wise on an empty stomach."

The San Francisco entrepreneur conceived the idea for Misfortune Cookies last year during dinner at a Chinese restaurant. "Faced with the usual unimaginative fortunes in our cookies, my

front expenses were subsidized by advances from a federally reimbursable revolving fund that the AIA set up, profits could be more easily directed into cash flow. With cash in hand Johnson could bid more competitively than before. At last G.S.M. (it stands for "God, Susan and Mankind")—a private sentiment, says Johnson—was on its way to financial independence.

Although G.S.M. now has work enough to employ a full-time staff of 10, Johnson still welcomes the trade of the neighborhood baker or dry cleaner whose storefront is overdue for a sprucing-up. "At this point," she readily acknowledges, "no job is too small."

Johnson recently moved G.S.M.'s headquarters from her parlor to a small, no-frills midtown office. Projections through the end of the year indicate that the aggregate value of all G.S.M. contracts completed or in progress should be \$1.8 million.

G.S.M. chief Susan Johnson consults with Marvin D. Martin, executive vice president, on rehabilitating a Harlem brownstone.

Profits remain relatively slender, but Johnson's confidence in the company's cash position is strong: "I think we're going to hold our own in this industry."

If there is a secret to Susan Johnson's success, it may simply be that she

is intensely fond of working. "You know that picture of Uncle Sam with his sleeves rolled up?" she asks. "Get it done, America?"

"Well, that's my attitude."

—Patrick T. Henry



PHOTO: JOHN WALLACE



PHOTO: JUDY HOWARD



Bored with traditional fortune cookies, Maureen Healy created a version that bites back. Her Misfortune Cookies are now sold in 700 outlets across the country.

husband and I entertained ourselves after the meal by making up our own comic versions. It occurred to me that if we had so much fun with our 'misfortunes,' there might be a business opportunity in writing and producing them for others."

Healy conducted market tests in San Francisco and Los Angeles during the peak gift-giving months of November and December, 1982. "I personally sold the cookies to local store owners and even delivered them myself," she says.

The response, she reports, was "fantastic, and sales in gift, gourmet and novelty shops were brisk." In January she launched a full-blown company, Make A Fortune, Ltd., and began selling cookies throughout the United States. She now has more than 50 sales representatives and expects revenues for the first full year of business to exceed \$100,000.

"I've been in the black since June," she says, "in spite of a significant 'misfortune' involving \$10,000 in checks and purchase orders that were mysteriously lost in the mail between July 15 and August 3."

Misfortune Cookies retail at a suggested \$3.95 for a box of a dozen and are sold at more than 700 outlets, including card shops and major department stores. Florists are even popping them into floral arrangements.

In addition, Healy is pushing "customized" cookies for use by other companies at conventions and trade shows and as product or service announcements. ("Write your own messages or we'll write them for you," Make A Fortune fliers suggest.)

Healy credits the cookies' package—a quart-sized Chinese food take-out container—for much of her success. The label—and company logo—show a butler slipping on a banana peel. The design, by Cathy Brown of San Francisco,

won two awards at the International Gourmet Food Show last summer.

"I doubt I'll make a career of promoting Misfortune Cookies," says Healy, "but I have aggressive business growth plans and I am currently seeking outside capital for several new novelty gift products."

Meanwhile, a few parting forecasts:

"Your best chance at mating is to take up chess."

"With diligence and hard work, you will become a normal human being."

"If you're looking for prosperity, happiness and romance, you chose the wrong cookie."

—Sharon Nelson

## A Bright Idea Put His Name in Lights

The farm fields of Wisconsin may seem unlikely territory in which to found a neon sign-making business. But as Dean Blazek of Antigo, Wis., has learned, sometimes all it takes is a bright idea at the right time to turn a low-income, one-man operation into a good revenue producer.

Blazek was getting by fairly comfortably but making no waves with the sign business, Northern Advertising Company, when he decided to open a school for neon sign makers. His first six-week course for five students in 1979 initiated a surge in annual revenue from \$50,000 then to more than \$400,000 now.

Blazek, 49, has seen his career take off as a result of the Northern Wisconsin Neon Workshop, the first of its kind in the nation since the 1940s, when neon's popularity waned. Some 100 men and women have learned from him the delicate craft of glass tube blowing to form letters, a process that has defied mechanization. Now they work in shops around the country and in Canada.

Although Blazek's students pay \$3,000 plus expenses to learn their craft, the workshop provides only 25 percent of his business income. But Blazek calls the school his "stepping stone" to more or-

ders for his Northern Advertising Company. The school's success won him publicity in trade journals that led to consultant work for large firms seeking expertise in neon equipment and training. It also led to a contract with his largest client, G. Heileman Brewing Company, of La Crosse, Wis., for whom Blazek's firm—now with a dozen employees—has turned out 5,000 signs in the past year.

In addition to working for retailers in the area, Blazek is negotiating with Heileman and other breweries for more contracts, in competition with a half dozen much larger companies.

None of this came about without a push. The nudge that mattered, Blazek says, came when owners of advertising sign companies urged him to train neon workers. "Tube benders" who had learned the craft in the 1920s and '30s were retiring or dying, and no new craftsmen were being trained.

Blazek, who learned neon work in Milwaukee as a young man, had seen "neon" become a byword for garish claptrap. Businesses had turned to other kinds of signs, partly because neon was twice as costly as fluorescent lights in plastic signs. Neon tubing was easily damaged by rain, hail, snow and cold.

Two trends changed this. As promotions, breweries around the country began giving their customers neon signs to put inside their windows. And about 15 years ago enclosed shopping malls started using neon. Because of the controlled climate in the malls, the neon signs' life expectancy of 40,000 hours makes them an economical alternative to conventional lights.

Neon is costly, Blazek adds, but "nothing matches its visibility."

Things are going so well for Blazek that he may move up the timetable for his retirement.

A lifelong aspiring artist, he is looking forward to a career as a painter.

—Larry Van Goethem



After Dean Blazek launched a school for neon workers, business soared for his Wisconsin sign company.



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# Taking the Worry Out of Winter

How to protect yourself during cold weather.

By Gabe Mirkin, M.D., and Mona M. Shangold, M.D.

**W**INTER brings snow and ski weekends, vacations in the mountains and invigorating early morning jogs before you head for the office. It also brings serious health risks if you are not prepared for the cold.

You need to do three things to enjoy exercise safely in cold weather. First, dress warmly. Second, don't drink alcohol. Third, be alert for warning signs of two major cold weather syndromes: frostbite and hypothermia.

Dress so your clothes can insulate you and retain your body heat. Multiple layers of clothing are best, since they trap air between the garments, and air is an excellent insulator.

Wear clothing made of material that can absorb sweat quickly, pulling the moisture away from your skin before it evaporates and chills you. Wool is best; cotton is worst.

Cold is felt first in your fingers, toes, ears and nose, so take special care to protect them. Wear woolen mittens, socks and caps. Mittens are better than gloves, because mittens keep your fingers together in one compartment where they can warm each other. Wear a scarf or a jacket with a collar that can be raised to protect your face.

Never mix alcohol with cold-weather exercise. It can kill you.

Alcohol interferes with your ability to shiver, your body's natural reaction to a drop in temperature. When you shiver, your muscles alternately contract and relax at a rapid pace to produce extra body heat.

Your brain is also affected by alcohol, so you can become confused and



Multiple layers of clothing will help you ward off the two biggest threats to winter fun: frostbite and hypothermia.

not realize when you are in serious trouble from the cold.

If you dress warmly and avoid alcohol, cold weather should be no problem. But even if it is, your body will give you ample warning when you start to develop frostbite or hypothermia.

**F**ROSTBITE is a freezing of the tissues. Sixty-five percent of your body weight is fluid, much of it in and around the cells. In frostbite, ice crystals form in that fluid. Skin, blood vessels and muscles freeze first. But if the freezing goes deep enough, it can envelop tendons, bones and internal organs.

When your skin is exposed to the cold, its temperature starts to drop. Your brain signals the blood vessels in the skin to close down circulation to preserve body heat, and you will begin to shiver. With the blood supply cut off, your skin temperature can plummet to 59 degrees Fahrenheit. At that point, the vessels reopen so warm blood can flow to the surface.

Your skin will burn and itch. If you get out of the cold at this point, you should be fine. If you don't, your skin will get colder. Pain will subside until you feel numb. At about 28 degrees Fahrenheit, blood circulation stops. Your skin will look waxy and feel like frozen meat. You will have frostbite.

Treatment involves rapidly rewarm-

ing the frostbitten limb. This process requires special skill and should be done by a physician, because, as the body warms, the cells may burst and be permanently damaged.

Hypothermia is an abnormal drop in internal body temperature. A 1-degree drop in body temperature will cause your speech to slur and you will begin to shiver. A 2-degree drop will cause you to lose control of your fingers and hands. They will become clumsy, weak and numb. It will be difficult for you to hold onto your ski poles or pick up an object. A 3-degree drop will cause your feet to weaken. You will stumble and fall and will be unable to walk to safety.

Further drops will cause mental confusion, muscle rigidity, loss of consciousness, heart failure and death.

Treatment for hypothermia is to shed all wet clothing and rapidly rewarm the body. For example, not long ago, six hikers took an early April backpacking trek along the Appalachian Trail. During a chilly mid-morning rain a woman in the group began to shiver uncontrollably. She sat down on a log to rest and could not get up. Her speech was slurred, and she felt very sleepy.

These symptoms indicated her body temperature had dropped about 4 degrees. Her companions immediately set up a small tent to shelter her from the rain. They removed her wet clothing and bundled her inside a sleeping bag. Two other women in the group shed their wet clothes and got in the bag with her. Their body heat warmed her, and within 10 minutes she felt better. Her quick-acting friends probably saved her life.

If you are throwing snowballs and your hands turn red and start to burn and itch, get inside right away. If your ski partner's speech is garbled and he cannot control his arms and legs, get him to warm shelter immediately.

Take care to keep the fun in winter. □

GABE MIRKIN, M.D., is the author of *Getting Thin* (Little, Brown & Company). MONA M. SHANGOLD, M.D., is assistant professor of obstetrics and gynecology at Cornell University Medical College.





## CONGRESSIONAL ALERT

# Issues That Could Affect *Your* Business

... and what you can do about them

This NATION'S BUSINESS feature advises readers how they can make their views known on important pending legislation. Correspondence to members and committees of Congress can be sent either c/o U.S. Senate, Washington, D.C. 20510 or U.S. House of Representatives, Washington, D.C. 20515.

Issue	Potential Impact On Business	Contact And Business Message
Budget/Taxes	Capitol Hill decisions to spend more and tax more in election-year buying spree could reduce length and strength of the economic recovery, keep jobless and interest rates high.	Members of the House and Senate: Avoid "promise them anything" election-year temptations; offer support to elected officials working to cut spending and hold tax rates.
Natural Gas Deregulation	Full decontrol would provide the lowest prices with plentiful supplies. Current restrictions on gas use and prices are unfair to business users.	Members of the House and Senate: Support legislative efforts to deregulate all natural gas prices and supplies by a fixed date, oppose all re-control efforts.
Line-Item Veto Authority	Additional opportunities for President to fine-tune federal spending bills, cut excess pork from the barrel will help effort to control spending and put much-needed teeth in budget process.	Members of the House and Senate: Support actions to give President line-item veto authority as logical next step in evolution of stable, predictable budget process.
National Industrial Policy	Result would be expanded federal role in economic planning and allocation of credit and capital, an institutionalized federal role in promoting or discouraging specific industries, regions and firms.	Members of the House and Senate: Oppose attempts to redirect national economy by concentrating planning and allocation authority in government bureaucracy.
Telephone Rates	Following AT&T divestiture, Congress could make business sole financier of subsidies for selected telephone users in selected geographic areas.	Members of the Senate: Oppose Senate bill unfair to business; support FCC plan creating equitable rates within truly competitive telecommunications system.
Hazardous Waste	Legislation would provide few environmental benefits while small business would face a much heavier paper work burden and higher production costs.	Members of the Senate: Support consistent regulating and reporting requirements for generators of small quantities of waste.
Bankruptcy	Consumers with anticipated future income would find bankruptcy certification more difficult; those owing debts would face pressure to pay.	Members of the House: Require that code include future-income provision; oppose granting special treatment to union workers.



## How To Foster Growth And How To Stunt It

Employment trends in the United States offer still another argument against tax increases to reduce budget deficits.

The number of working Americans has increased nearly 3 million this year, and the unemployment rate has fallen 18 percent.

Equally significant is the continuing growth in the number of small businesses, the country's greatest source of new jobs. Continuation of that trend could mean an even brighter employment picture ahead.

Much of the business growth is being financed by capital that only a few years ago would have gone into the federal treasury. Because of tax relief and other supply-side incentives provided under the Reagan administration's economic program, substantially more money is available for investment in business expansion.

Raising taxes would simply redirect that money back to Washington, denying it to the entrepreneurs who keep the recovery booming. It would go, instead, to the big spenders for still higher federal outlays.

Advocates of tax increases should pause and ask themselves if they really believe that is what the American people want.

The answer should be obvious. The higher-tax forces make a fundamental mistake in assuming the choice is between high taxes and high deficits. They ignore a much more satisfactory alternative—tax policies that foster a recovery that will, in turn, generate deficit-cutting revenues.

## Business Phone Fees: Sorry, Wrong Number

Too many members of Congress are still unable to discard the idea that American business is an inexhaustible source of money that can be drawn upon to support whatever scheme these legislators designate.

The latest symptom of this economic myopia is a plan to make business alone finance a subsidy to hold down subscriber costs of local telephone service after the breakup of the American Telephone and Telegraph Company next month.

For many years, AT&T's long-distance rates were high enough to provide a \$10 billion offset against local service charges. In approving the AT&T breakup, the Federal Communications Commission ordered monthly charges of \$2 on each residential phone and \$6 on each business line to replace the lost AT&T subsidy. Each charge would go up annually from 1986 through 1990, with the rise varying by area.

But legislation pending in Congress would revamp the FCC plan and put the entire burden on business, without setting a ceiling or time limit on increases.

Where do supporters of this bill think business is going to get the revenues to meet such open-ended demands on income?

Unfortunately, too many members of Congress have to be reminded again and again that business cannot create the money for taxes or other charges that government forces it to pay. The money must first be collected from consumers. Claiming that a designated tax falls only on business does not alter that economic reality.

## Management and Labor Have To Be Teammates

Recurring strikes are a reminder that the adversary relationship is still very much present in labor-management relations in the United States. Work stoppages at key plants of the Chrysler Corporation and in Greyhound's bus operations are recent examples.

But the recession and competition from abroad have contributed to a growing understanding by both management and labor that their proper relationship is not that of adversaries but of a team striving for the same goals.

One result of this recognition of a mutuality of interests is the expansion of opportunities for workers to acquire equity in the companies that employ them. This can be done through such arrangements as employee stock ownership plans, which are described in detail in this month's cover story, beginning on page 20.

As the article notes, ESOPs may not be the answer for all companies. But increased worker appreciation of what is needed to make a company prosper is a goal that all businesses can share, regardless of specific steps used to achieve it. □



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